2009 ANNUAL REPORT

SOUNDTRANSIT
RIDE THE WAVE

Financial and Operating Highlights

The year 2009 marked a significant accomplishment for Sound Transit with the launch of light rail service between downtown Seattle and Tukwila in July and the extension of service to Sea-Tac Airport in December. This profoundly impacted the agency by expanding ridership and solidifying the agency as an operator as well as a planner and builder of regional projects. Ridership grew by almost three percent on Sound Transit express bus service, but declined by nearly seven percent on commuter rail service due to impacts of the recession and lower gas prices.

Tax revenues in 2009 reflect the collection of an additional 0.5% sales tax, effective April 1. This tax increase was approved by voters in November 2008 as part of the Sound Transit 2 Plan. Without those new taxes, sales tax revenues would be down six percent, reflecting the impact of the recession.

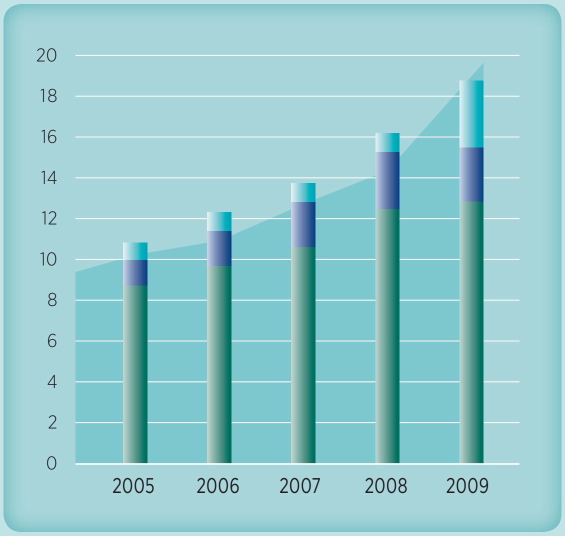
Completion of the Central and Airport Link light rail projects is reflected in lower total capital outlays in 2009 of $379.9 million, down 34 percent from the prior year. The light rail capital program accounts for 72 percent of total capital spending, with spending shifting to the University Link light rail extension and the commencement of Sound Transit 2 projects.

Tax Revenue Collection History

(Unaudited) ($ in millions)

Ridership

(Number of boardings/Unaudited) (In millions)



Transit Modes

- Link light rail
- Sounder commuter rail
- ST Express regional bus

Annual Adopted Budget[1]

1. Prior to 2006 published source was the annual Sounder Business Plan and the prior year Service Implementation Plan (SIP) for ST Express.

Capital Expenditures by Line of Business

(Unaudited) ($ in millions)

Transit Modes

- Link light rail
- Sounder commuter rail
- ST Express regional bus

Annual Adopted Budget[1]

1. Excludes ongoing capital expenditures related to Transportation Services, Transit Vision, Administrative Capital and Transit-oriented Development.

Cover photo: Space Forms *by Dan Corson brings color to Beacon Hill Station, where riders board Link trains.*

Central Link light rail • Sounder commuter rail • ST Express regional bus • Tacoma Link light rail

Sound Transit plans, builds and operates regional transit systems and services to improve mobility for Central Puget Sound.

Table of contents

Photos, above: Crowds cheered the extension of Link light rail service to Sea-Tac Airport, which debuted in December; below: The opening of Link light rail service in July brought out thousands of people, many shown here at Westlake Station, to kick off the new era of regional transit.

Building for the region

The people living in the Puget Sound area celebrated a huge accomplishment in 2009 when Link light rail – an effort some 40 years in the making – opened for public service. It took vision, perseverance and cooperation through the years to deliver a modern and efficient light-rail line that residents have long awaited.

Aaron Reardon, Snohomish County Executive and Sound Transit Board Chair

Link proved an instant hit, with 92,000 people riding during the July opening weekend of service between downtown Seattle and Tukwila. And when the extension of service to Sea-Tac Airport opened just five months later, light rail passengers came from not just the Seattle area, but from around the world.

Today, Link provides 20,000 rides every weekday, offering people a quick, reliable way to get from one destination to another. That number continues to grow. New Link light rail service symbolizes what this region can accomplish when we come together to embrace a common goal and work toward its completion.

As big as the new light rail line is, it's only one chapter in the story of Sound Transit's accomplishments last year.

Photos, left: Cameras captured the moment that the first Link trains met at Mount Baker Station on the opening day of service in July; right: Sound Transit staff and events crew were on hand to assure that all went smoothly on the sunny July opening weekend of Link light rail service.

By the end of 2009, Sound Transit buses and trains carried nearly 64,000 passengers every day throughout King, Pierce and Snohomish counties. Service was expanded on Sounder commuter rail and ST Express bus routes, and new facilities were opened, making it easier for people to use transit services.

There's more to come, with work currently underway to extend Link light rail north to the University of Washington and east to Bellevue and Overlake. In the years ahead, light rail service will also be expanded to Lynnwood and Federal Way – creating a truly regional 55-mile system.

Thanks to you – the taxpayers who publicly invest in Sound Transit – this region has built a solid foundation for current and future generations. I'm proud to be part of it. I look forward to watching our collective investment continue to grow and serve our region long into the future.

Aaron Reardon
Sound Transit Board Chair, Snohomish County Executive

Photos, above: Sounder train riders at the Auburn Station are among those who took 9,000 rides each weekday on the popular south line between Tacoma and Seattle; below: No matter the weather, Bellevue Transit Center is a busy place where thousands of riders catch ST Express buses.

Tools to get the job done

We've come a long way since Sound Transit put the first ST Express buses into service in 1999. In the 10 years that followed, we launched Sounder commuter rail, Tacoma Link light rail, and finally Central Link light rail services. We also built dozens of transit centers, park-and-ride lots and HOV lanes that make it easier for people to use transit. All of this was to carry out the vision of voters who embraced the idea of a regional transit system and charged us with making it happen. The evolution is apparent as you look around the region.

That evolution is also being recognized internally as the Sound Transit organization matures. This agency began as a small start-up with a focus on planning. We then tackled construction and implementation of service. Today we do all of that and more.

With trains and buses now carrying nearly 20 million passengers a year, customer service is the heart of Sound Transit's mission. That's why I have been working with my leadership team to align our organizational structure to guarantee we have the best tools for current and future success.

An increased emphasis on serving our multiple customers – riders, taxpayers, investors and interested citizens – doesn't mean that Sound Transit is less involved in planning and construction. In fact, when voters approved the Sound Transit 2 expansion plan in 2008, they guaranteed another 15 years of work to triple the size of the light rail system as well as increase commuter rail and regional express bus operations throughout the region.

What is Sound Transit doing to meet the challenge? Besides fine-tuning our organizational structure, we're also addressing head-on the economic challenges that mean tax revenues are less than projected. The Sound Transit Board and staff are exploring ways to cut costs, find partnerships and deliver on our commitment. As always, we continue to work in a way that is clear and accountable to the public we serve.

Joni Earl

Joni Earl
Chief Executive Officer

Joni Earl, Sound Transit Chief Executive Officer

Photos, left: Eastside commuters prepare to board their ST Express bus at Issaquah Transit Center; right: Tacoma Link is one of several transit options accessible from the busy Tacoma Dome Station.

2009 Milestones

An easy way for you to track Sound Transit's accomplishments is through agency milestones and progress report.

In 2009, Sound Transit achieved 27 of its 36 milestones for a completion rate of 75 percent. Most of those missed will be completed in 2010.

Behind every ground-breaking or ribbon-cutting are hundreds of people and their stories. The cooperative vision it takes for parties to come together and work to meet a public need. The creativity involved in research, planning and development. The sweaty labor of construction work.

Most important is the reason we do what we do — to give you a reliable alternative to sitting in traffic. To get you home in time for dinner, or the soccer game, or your night class.

While you're on the bus or train, take time to review in more detail Sound Transit's 2009 milestones, our record of achievements.

Open for service

- Variable message signs at Sounder south stations begin including next bus schedule information
- ✔ SR 522 HOV enhancements (Kenmore) open
- ✔ South Tacoma Station opens for ST Express service
- ✔ Everett Station parking expansion completed
- ✔ ORCA smart card launch
- ✔ Comprehensive plan for additional ST2 bus service adopted by Sound Transit Board
- ✔ Plan to coordinate Metro bus and Link light rail services adopted
- ✔ Ninth Sounder round-trip begins between Tacoma and Seattle
- ✔ Start of ST2 bus service improvements
- ✔ Sounder automatic passenger counting system completed
- ✔ Link opens light rail passenger service to Tukwila
- ✔ Link light rail passenger service opens to Sea-Tac Airport
- ✔ Average combined weekday boardings for Sound Transit trains and buses reach 75,000

Photos, above: A new pedestrian bridge to 440 new parking spaces at Everett Station brought parking relief and additional options for Sounder riders there in 2009; below: Artist Roger Shimomura's Rainier Valley Haiku *sculpture at Othello Station, part of Sound Transit's public art program, explores themes of neighborhood diversity and identity.*

Under construction

- ✔ University Link federal grant awarded
- ✔ Groundbreaking for University Link
- ✔ Groundbreaking for Mountlake Terrace Freeway Station
- Groundbreaking for SR 522 enhancements in Bothell
- ✔ Groundbreaking for Sounder track-and-signal improvements from M Street to Lakewood
- ✔ Art installations complete for Link light rail initial segment
- Groundbreaking for Edmonds Station
- ✔ University Link light rail advanced utility relocation contract completed
- ✔ Groundbreaking for Kirkland Transit Center
- ✔ SeaTac/Airport Station substantially complete
- ✔ Newcastle Transit Improvements Project groundbreaking
- Environmental restoration mitigation projects completed for Sounder north corridor

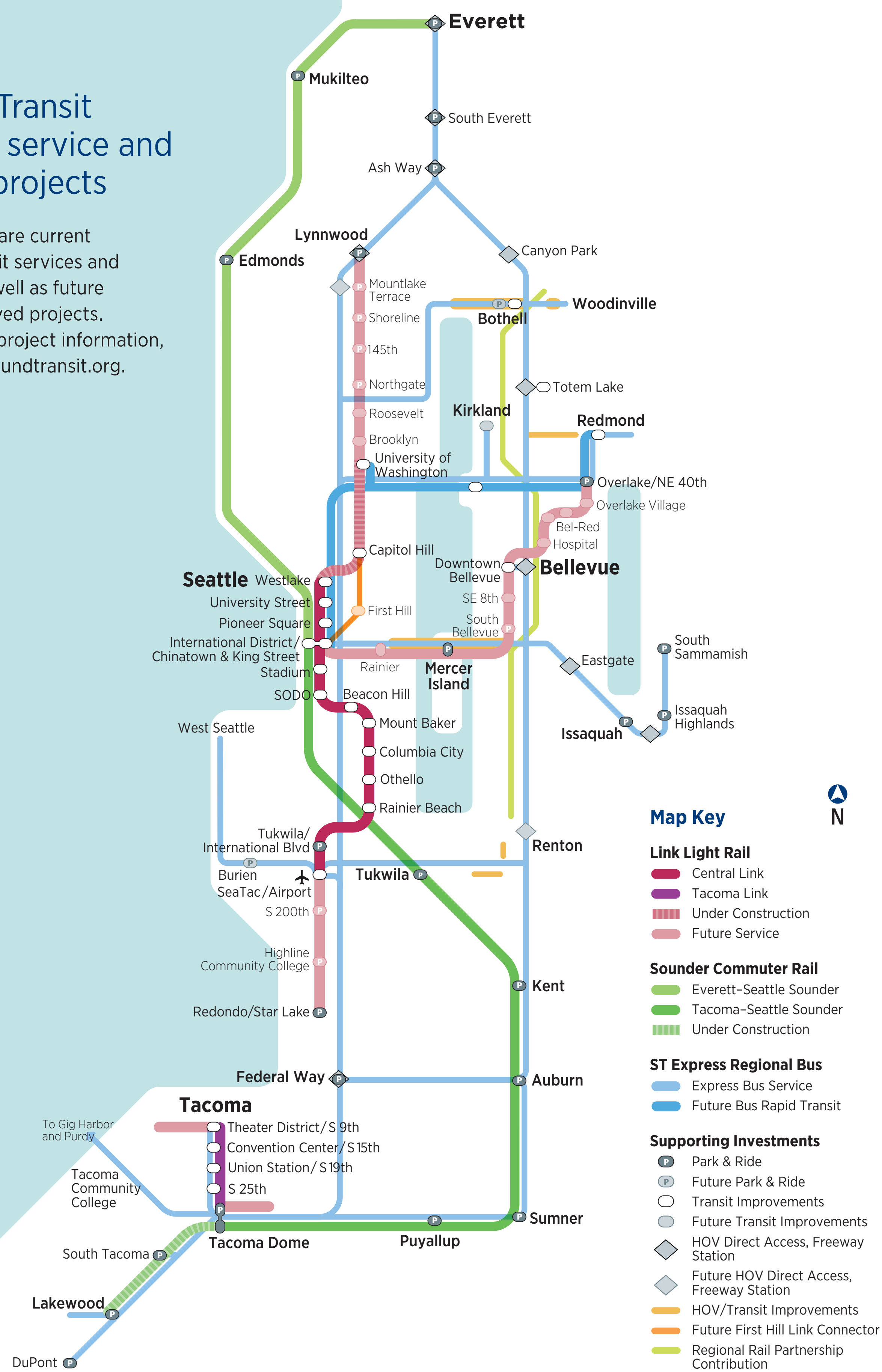
On the horizon

- ✔ Sound Transit Board adopts Link light rail fares
- ✔ Talking Signs rider testing completed
- ✔ Sound Transit Board identifies East Link light rail preferred alternative
- ✔ Agency clean financial audit
- Agreement executed for four additional Sounder round trips between Tacoma and Seattle
- Planning and design begins for new ST Express maintenance base
- ✔ First Hill Link Connector agreement signed with City of Seattle
- ✔ University Link final design completed
- System Access Program guidelines adopted; eligible investment projects identified
- 60 new ST Express buses ordered
- Notice to Proceed issued for U-Link tunnel from UW to Capitol Hill

Photos, above left: Throughout the region, riders began using the ORCA smart card to pay for rides on trains, buses and ferries; above right: Sound Transit broke ground on construction of Link light rail service to the future University of Washington Station, shown here in a rendering, with service projected to open in 2016; right: Track and signal improvements between Tacoma's M Street and Lakewood will bring future Sounder service to South Tacoma Station, home of artist Ilan Averbuch's Landmark *sculpture, part of the STart program.*

Sound Transit current service and future projects

Shown here are current Sound Transit services and facilities as well as future voter-approved projects. For specific project information, visit www.soundtransit.org.



Foundation: delivery on investment

Sound Transit completed the foundation of the regional transit system with the opening of Link light rail service between Seattle and SeaTac. We continued to build on the framework with new projects and service throughout the region.

Here's a quick look:

- 3 new transit facilities open
- 7 regional transit agencies launch ORCA smart card
- 9th round-trip Sounder train between Tacoma and Seattle
- 10 years of Sound Transit service
- 35 public artworks along new Link light rail line
- 660 new parking spaces in Everett and South Tacoma
- 64,000 average combined daily boardings
- 92,000 people at Link light rail opening weekend
- 18.6 million passengers carried, 2 million+ more than 2008!

Transit riders throughout the region started using the new ORCA smart card for streamlined fare payment and transfers. Many also benefited from the opening of the South Tacoma Station, expanded parking at Everett Station, and HOV enhancements on SR 522 in Kenmore. At the same time, many new train and bus projects got underway, including the next generation of transit improvements that will triple the size of the new light rail system and increase Sounder train capacity by 65 percent while greatly increasing express bus service.

Photos, top left: Residents and visitors found a convenient new way to travel when Link light rail service opened; top right: Sounder trains are a comfortable way for people throughout the region to travel to work and select special weekend events; above: a UW Tacoma student takes a study break while riding Tacoma Link.

Blueprint for the future: what's in store

With the foundation now in place, Sound Transit is hard at work building needed additions to your regional transit system. In the years ahead:

- More ST Express buses and 100,000 more hours of bus service are being added on the busiest routes;
- Longer Sounder train cars and more frequent runs will greatly boost service capacity on the busy Tacoma-to-Seattle corridor; and
- The Link light rail line will grow into a 55-mile regional system, serving dozens of new communities.

We are building for the future with transit projects and services to help maintain our quality of life. Trains and buses that help us all get around will keep this a place our children and grandchildren want to call home. Together, the people of the Central Puget Sound region approved the blueprint and provided the tools needed to get the job done.

Photos, above right: Sounder trains and ST Express Route 566 at Kent Station are ready to take passengers where they need to go; left: a curious art patron enjoys Portals, *a series of cast-glass viewing windows inside Beacon Hill Station created by artist Dan Corson.*

Photos, above: Light rail service is being extended to Capitol Hill and the University of Washington, shown in this rendering; below left: Seattle-bound peak-hour commuters using transit, many on ST Express buses, will reach 50 percent by 2030; below right: Link trains and Richard C. Elliott's *Sound of Light* color the Rainier Valley landscape.

FINANCIAL SECTION

Table of Contents

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit) have been prepared from the Agency's accounting system in accordance with generally accepted accounting principles. The integrity and objectivity of information in Sound Transit's financial statements, including estimates and judgments, are the responsibility of management.

Sound Transit maintains a system of internal accounting controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting, the safeguarding of assets and the prevention and detection of material errors or fraudulent financial reporting. Monitoring of such systems includes management's responsibility to objectively assess the effectiveness of internal accounting controls and recommend improvements therein.

Limitations exist in any system of internal accounting controls in which the cost of the system being implemented should not exceed the benefits derived. Sound Transit believes that the organization's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and is adequate to accomplish the stated objectives.

The independent auditors, whose report is included herein, were engaged to express an opinion on our 2009 financial statements. Their opinion is based on procedures performed in accordance with generally accepted auditing standards, including examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In an attempt to assure objectivity, the financial information contained in this report is subject to review by the Board of Directors.

Joni Earl
Chief Executive Officer

Brian McCartan
Chief Financial Officer

Kelly A. Priestley
Controller

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2009 and 2008

Management's Discussion and Analysis ("MD&A") presents a narrative overview and analysis of the financial activities of the Agency for the years ended December 31, 2009 and 2008. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the financial statements and footnotes as a whole.

Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, is a regional transit authority implementing and providing a high-capacity transportation system throughout parts of King, Pierce and Snohomish counties through commuter rail ("Sounder"), light rail ("Link") and a regional express bus system ("ST Express"). The initial phase of the voter-approved regional mass transit system "Sound Move" is scheduled for completion in 2016. The second phase "ST2", approved in November 2008, authorized a 0.5% Sales and Use Tax increase, expands service to the region, and is scheduled for a 2023 completion.

Sound Transit's financial statements have reflected a growth in operating revenues and expenses each year, as well as growth in capital assets. In 2009, revenues reflect a further growth as a result of the Sales and Use Tax increase, while service levels increased significantly with the launch of the 15.7 miles of Link light rail service. Service began on the 14 mile Central Link segment in July 2009, providing riders high capacity service from the Westlake Station in Seattle to the Tukwila Station. In December 2009, the 1.7 mile Airport segment opened bringing the light rail service to Sea-Tac International Airport. Major sources of revenue continue to exceed expenses providing a continued net asset increase.

Financial Highlights

- Total operating revenues were $32.5 million for 2009, an increase of 6.3% from the prior year. Passenger fares increased by $2.4 million from the prior year with the introduction of Central Link light rail service in July 2009.
- Loss from operations was $202.4 million for 2009, an increase of 41.0% from the prior year.
  - Operations and maintenance expenses increased by 22.5%, substantially related to the new costs associated with Central Link light rail service, as well as some increase in bus service levels, and higher maintenance costs as the fleet's age.
  - General and administrative expenses, after allocations to capital projects and operations and maintenance, increased by 36.2%, reflecting a significant overhead write-off and increased costs in support of facilities, fleet, safety, technology and revenue collection.
- Non-operating revenues, net of expenses were $494.7 million, a 46.6% increase from prior year. Tax revenues increased by $174.6 million or 51.9% all related to sales tax revenues due to the 0.5% increase in the tax levy from ST2 effective April 1, 2009. Without the additional tax levy, the sales tax revenues compared to 2008 are down $17.1 million or 6.4%.
- Federal, state and local contributions to Sound Transit of $176.6 million were comparable to the prior year, while completed projects transferred to other governments of $25.5 million, decreased by 62.4%. The continuing decrease in projects transferred to other governments is reflective of the substantial completion of Sound Move Projects.
- Total net assets at December 31, 2009, were $3.6 billion, an increase of $443.4 million or 14.0% from 2008. This change was up from 2008, during which net assets increased by $301.7 million or 10.5%. This increase is primarily due to the higher sales tax revenues and fewer projects donated to other governments for 2009.
- Total capital assets, net of accumulated depreciation, were $4.2 billion at December 31, 2009, an increase of $283.3 million or 7.2% from 2008. The increase in total capital assets is due to the completion of the Central and Airport Link segments and progress on the University Link project, and the Sounder Tacoma to Lakewood projects. In 2009, $2.4 billion in expenditures related to completed projects or land acquisitions were transferred to land, property, vehicles and equipment.

Overview of the Financial Statements

Sound Transit's financial statements are prepared in conformity with United States Generally Accepted Accounting Principles ("GAAP") as applied to government units. The 2009 and 2008 financial statements are presented using the economic resource measurement focus and accrual basis of accounting. As Sound Transit comprises a single proprietary fund, no fund level financial statements are shown.

In accordance with GAAP, all revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of Sound Transit are included in the Balance Sheets, and depreciation of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

The financial statements provide both long-term and short-term information about Sound Transit's overall financial status as well as Sound Transit's net assets, segregated by invested in capital assets (net of related debt), restricted and unrestricted. Net assets are the difference between Sound Transit's assets and liabilities and over time may serve as a useful indicator of Sound Transit's financial position. The financial statements also include notes that provide additional information that is essential to a full understanding of the information provided.

Financial Analysis

Net Assets

Sound Transit's total net assets at December 31, 2009, were $3.6 billion, an increase of $443.4 million or 14.0% from 2008 (see Table A-1). Total assets increased $806.7 million or 17.4% and total liabilities increased by $363.3 million or 24.8%. The large increase in total assets and liabilities largely reflects the 2009 bond issue, resulting in an increase in cash and investments, long-term debt and capital program spending.

Current assets, excluding restricted assets, increased in 2009 by 74.7% from 2008, reflecting the higher cash and cash equivalent balance on hand with the receipt of bond proceeds in late 2009 reimbursing previous capital project spending. Current assets, excluding restricted assets, decreased in 2008 by 28.0% from 2007 due to lower cash and cash equivalent balances on hand, as the agency funded its construction activities.

Table A-1
Sound Transit Net Assets

	As of December 31,			% Change	
(in millions)	2009	2008	2007	2009-2008	2008-2007
Current assets, excluding restricted assets	$ 918.8	$ 526.0	$ 730.3	74.7	(28.0)
Restricted assets	239.7	24.0	120.2	93.4	3.2
Capital assets	4,200.7	3,917.4	3,451.3	7.2	13.5
Other non-current assets	92.0	77.1	70.7	19.4	9.1
Total Assets	**5,451.2**	**4,644.5**	**4,372.5**	**17.4**	**6.2**
Current liabilities, excluding interest payable from restricted assets	167.4	174.6	190.6	(4.1)	(8.4)
Interest payable from restricted assets	19.0	14.0	11.2	36.1	24.4
Long-term debt	1,571.3	1,204.1	1,226.3	30.5	(1.8)
Other long-term liabilties	72.1	73.8	68.1	(2.3)	8.4
Total Liabilities	**1,829.8**	**1,466.5**	**1,496.2**	**24.8**	**(2.0)**
Net Assets					
Invested in capital assets, net of related debt	2,765.0	2,693.3	2,208.1	2.7	21.9
Restricted net assets	78.3	110.0	109.0	(28.9)	1.0
Unrestricted net assets	778.1	374.7	559.2	107.7	(33.4)
Total Net Assets	**$ 3,621.4**	**$ 3,178.0**	**$ 2,876.3**	**14.0**	**10.5**

Restricted assets increased by 93.4% from 2008 as additional cash was restricted for the 2009 bond issue requirements and was comparable between 2008 and 2007.

Capital assets increased in 2009 by 7.2% from 2008. Construction in progress decreased by $2.0 billion, while fixed assets, including depreciable and non-depreciable assets, increased $2.4 billion with the capitalization of the completed construction in progress for the Central and Airport Link projects.

Total capital project spending for the year was $397.9 million. Central Link and Airport Link were 51.1% while University Link and North Link were 20.1% of total capital spending. In all, total capital spending for light rail was $276.8 million or 69.8% of the total capital spending ($439.8 million or 76.3% in 2008). Capital spending on Sounder and ST Express projects as a percentage of total capital spending was 16.5% and 5.8%, respectively (10.4% and 5.8% in 2008). Transfers out of capital projects in progress were $2.4 billion ($247.3 million in 2008) as projects were completed and transferred to property, vehicles and equipment or expensed as indicated in the following table:

(in millions)	2009	2008
Transferred to property, vehicles and equipment	$ 2,387.9	$ 168.8
Expensed to contributions to other governments	25.5	67.6
Transferred to prepaid expenses, inventory and non-capitalized expenditures	0.5	0.7
Link start-up expenditures	12.8	5.4
Write-off of overhead, discontinued and impaired project costs and loss on disposal of assets	11.2	4.8
	$ 2,437.9	**$ 247.3**

In 2009, $11.2 million of capital costs were written off, $5.8 million of which related to the Renton HOV Access/N 8th Avenue project which was to be built in partnership with WSDOT. The state does not currently have the funding for the project, nor does it anticipate having future funding for the project. Additionally, $5.4 million of excess overhead costs were written off to general and administrative expense in 2009. In 2008, the write-off was $4.8 million, for the Star Lake Freeway Station, also related to a state funded project.

Direct additions to property, vehicles or equipment in 2009 were comparable to 2008 and were primarily technology investments. Depreciation expense increased in 2009 and 2008 to $65.8 million and $38.3 million, respectively. There were no significant disposals and transfers in 2009. In 2008, disposal and transfers were $2.4 million, the most significant of which was a transfer of property in the Rainer Valley to land held for resale.

Current liabilities, in 2009, excluding interest payable from restricted assets, decreased by 4.1% as lower amounts were payable at year-end as construction activity was lower in 2009. Interest payable at year end increased 36.1% and long term debt increased 30.5% due to the 2009 bond issue. Current liabilities, in 2008, excluding interest payable from restricted assets, decreased by 8.4% as lower amounts were payable at year-end as the initial segment construction approached completion and the current portion of long-term debt increased as the 2007A bonds were outstanding for the full year in 2008.

The table below presents the net asset components and their relative percentage to total net assets.

Net Assets

	As of December 31,			% Total Net Assets		
(in millions)	2009	2008	2007	2009	2008	2007
Invested in capital assets, net of related debt	$ 2,765.0	$ 2,693.3	$ 2,208.1	76.4	84.7	76.8
Restricted net assets	78.3	110.0	109.0	2.2	3.5	3.8
Unrestricted net assets	778.1	374.7	559.2	21.4	11.8	19.4
Total Net Assets	**$ 3,621.4**	**$ 3,178.0**	**$ 2,876.3**	**100.0**	**100.0**	**100.0**

Sound Transit's net assets represent the cumulative effect of the excess of revenues over expenses together with the impact of the agency's financing and management decisions. Invested in capital assets reflects investment in property, construction in progress and depreciable net assets used in its operations, while restricted net assets are assets restricted for use by the agency for a specific purpose and unrestricted net assets are the remainder of net assets not invested in capital nor restricted for a specific purpose. For 2009, with the increase in the agency's sales tax base, unrestricted net assets increased by 107.7%. In 2008, unrestricted net assets decreased by 32.8%, while invested in capital assets increased by 22.0%, reflecting investments made by the Agency on Sound Move projects.

Changes in Net Assets

Changes in net assets reflect the excess of revenue over expenses for a year. In 2009, the excess of revenues over expenses was $443.4 million, while in 2008 it was $301.7 million (see Table A-2). The increase in net revenues for 2009 is due primarily to the increase in the Agency's Sales and Use tax rate for ST2. While the loss from operations in 2009 increased over the prior year with the launch of the Central Link light rail service, that impact was offset by lower capital contributions to other governments. The Agency's Statement of Revenue, Expenses and Changes in Net Assets is summarized in the table below:

Table A-2
Changes in Sound Transit Net Assets

	For the year ended December 31,			% Change	
(in millions)	2009	2008	2007	2009-2008	2008-2007
Operating Revenues					
Passenger fares	$ 29.0	$ 26.6	$ 22.0	9.2	20.8
Other	3.5	3.9	4.2	(13.3)	(6.9)
Total Operating Revenues	**32.5**	**30.5**	**26.2**	**6.3**	**16.3**
Operating Expenses					
Total operating expenses, before depreciation and loss on disposal of assets	169.1	135.8	116.2	24.4	16.9
Depreciation and loss on disposal of assets	65.8	38.3	35.4	71.8	7.9
Total operating expenses	**234.9**	**174.1**	**151.6**	**34.9**	**14.8**
Loss from operations	(202.4)	(143.6)	(125.4)	41.0	14.5
Non-operating revenues, net of expenses	494.7	337.5	352.6	46.6	(4.3)
Income before capital contributions	**292.3**	**193.9**	**227.2**	**50.7**	**(14.6)**
Capital contributions	151.1	107.8	1.8	40.2	5,953.1
Change in Net Assets	**443.4**	**301.7**	**229.0**	**47.0**	**31.8**
Total net assets, beginning	3,178.0	2,876.3	2,647.3	10.5	8.6
Total Net Assets, ending	**$ 3,621.4**	**$ 3,178.0**	**$ 2,876.3**	**14.0**	**10.5**

Operating Revenues

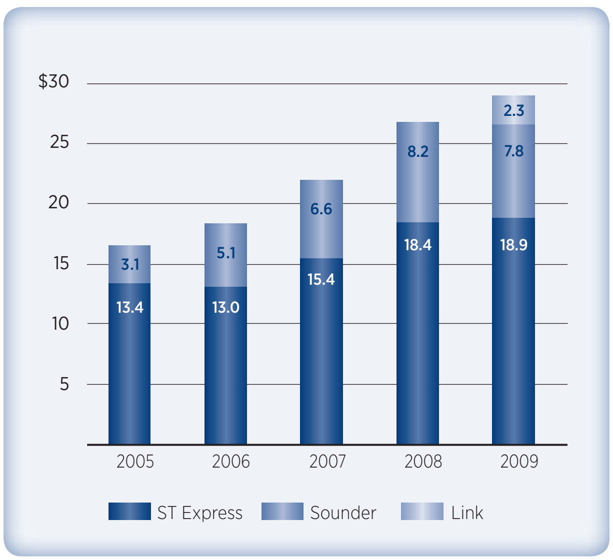
Operating revenues are composed of passenger fares and other revenue related to operations.

Passenger Fare Revenue

Passenger fare revenue consists of fares earned from the sale of Puget Passes, Sounder and Link tickets, ORCA product usage, ticket vending machine and bus farebox receipts from riders on Sounder, Link and ST Express during the year. The agency experienced overall growth in passenger fares revenue of 9.2%, passenger boardings of 16.5% and a decrease in average fare per boarding (AFB) of 6.3%. The decrease in the AFB is the result of the change in the mix of ridership on Sound Transit services with the addition of Central Link light rail. Without the new light rail services, the passenger fare revenue and the AFB for 2009 were comparable to 2008.

The following chart displays revenue by mode from 2005 to 2009:

Operating Revenue by Mode ($ in millions)



Sounder rail passenger revenue decreased $0.4 million or 5.1% in 2009, compared to growth of $1.6 million or 23.8% in 2008. There was a ridership decrease of 6.6% in 2009, caused by a slowing regional economy, lower automobile fuel prices and reduced congestion, which combined to reduce the incentives to use rail transit. The growth in 2008 reflected both higher per train ridership and additional round-trip service, the effect of which was an increase in boardings of 23.7% in 2008.

The average fare per boarding on Sounder in 2009 was $3.12, an increase of $0.05 from the 2008 average fare per boarding of $3.07. This increase in fare per boarding is a result of an increase in the number of riders traveling from stations in the higher fare zones (greater distance).

ST Express bus passenger revenue increased by $0.5 million or 2.6% in 2009, and by $3.0 million or 19.5% in 2008. The increase in revenue for ST Express is due to service route enhancements on the routes into South Snohomish County and east to Issaquah. Ridership on ST Express throughout the system was increased in both 2009 and 2008, increasing by 0.4 million boardings or 2.9% in 2009 and 1.8 million boardings or 17.2% in 2008. In 2009 and 2008, service hours increased by approximately 7.3% and 2.3%, respectively.

The average fare per boarding on ST Express in 2009 of $1.47, remained unchanged from prior year; and increased by $0.03 or 2.0% in 2008. Boardings per trip were down in 2009 due to the slow economy, less traffic congestion on the highways and lower fuel costs, all of which reduced the incentives to use transit.

Central Link light rail began revenue operations in July of 2009. Actual ridership for 2009 totaled 2.5 million, with an average fare per boarding of $0.98, excluding free service boardings.

Ridership on Tacoma Link, a free fare service, was comparable to 2008 and 2007, although the system was shut down for nine days in the month of August 2009 to allow for repairs to the concrete median.

Ridership numbers by year and mode of transportation are as follows:

Ridership

				% Increase	
(in thousands)	2009	2008	2007	2009-2008	2008-2007
Sounder	2,492.4	2,668.6	2,156.7	(6.6)	23.7
Link	3,390.5	919.1	919.0	268.9	0.0
ST Express	12,896.7	12,528.8	10,689.0	2.9	17.2
Total	**18,779.6**	**16,116.5**	**13,764.7**	**16.5**	**17.1**

Other Operating Revenues

Other operating revenues consist of vehicle advertising, rental of equipment and facilities and other miscellaneous revenue. Other revenues of $3.5 million were down $0.4 million or 13% from 2008. This is primarily due to lower advertising revenues, which is typically seen as a discretionary expense and subject to decreases in recessionary periods.

Operating Expenses

Operating expenses are comprised of operations and maintenance costs, general and administrative expenses and depreciation.

Operations and Maintenance

Operations and maintenance expenses for all transit modes, increased in 2009 by $26.3 million or 22.5% and by $17.6 million or 17.8% in 2008. Major expense categories are services, materials, supplies, utilities, insurance, taxes, and purchased transportation, allocated overhead from staff divisions and operating leases and rentals. Purchased transportation represents amounts paid to BNSF Railway Company ("BNSF"), which operates Sounder commuter rail, and to Community Transit, King County Department of Transportation and Pierce Transit who operate Sound Transit's express bus service and King County Rail Division, which operates the Central Link light rail. Purchased transportation services accounts for 63.0% of this category, 67.0% in 2008. Services are the next largest expenditure in this category and include the Sounder vehicle maintenance contracted to Amtrak and various contracts for facilities maintenance and security at Sound Transit-owned and shared facilities. Services were 20.1% in 2009 and 16.6% in 2008 of total operating and maintenance expenses.

Operations and maintenance costs by mode are as follows:

Operations and Maintenance

				% Increase	
(in millions)	2009	2008	2007	2009-2008	2008-2007
Sounder	$ 34.3	$ 31.2	$ 24.8	9.4	25.9
Link	23.8	3.2	3.2	644.7	1.4
ST Express	85.0	82.3	71.1	3.3	15.7
Total	**$ 143.1**	**$ 116.7**	**$ 99.1**	**22.5**	**17.8**

Operating and maintenance costs increased on Sounder 9.4% in 2009 and 25.9% in 2008. Sounder's purchased transportation costs decreased $1.7 million in 2009 due to the new operating agreement with BNSF. Services for Sounder increased $2.5 million due to higher maintenance costs on the fleet as it ages and higher security costs at the stations. In 2008, the large increase reflects the new service added.

ST Express operating and maintenance costs increased 3.3% in 2009 and 15.7% in 2008. These increases reflect the service enhancements and higher costs for security services, maintenance of the facilities and increased costs for the use of the Downtown Seattle Transit Tunnel.

Link expenses include both Tacoma Link and the Central Link light rail lines. The 2009 operating and maintenance expenses for Central Link were $20.5 million. For Tacoma Link the expenses were comparable for 2009 and 2008.

General and Administrative

General and administrative expenses are comprised of Agency staff and administrative costs not allocated to operations and maintenance or to capital projects. Major expense categories include wages, benefits, services, materials, supplies, utilities, insurance, taxes, miscellaneous, lease and rental expenses. In 2009, net general and administrative expenses increased by $6.9 million or 36.2%, while in 2008 they increased by $2.0 million or 11.8%.

Before allocation to capital projects and operations, total agency staff and administrative costs increased by $7.0 million or 13.2%, primarily in the salary and benefits, and services. Salary and benefit costs represent 75.6% of the increase, reflecting higher staffing, as the agency ramped up to support operations, Smart Card fare collection ("ORCA") and ST2. Total general and administrative costs before allocations in 2008 increased by $4.0 million or 8.2%, primarily in the salary and benefits, services, materials and supplies.

General and administrative costs allocated to capital projects and transit operations include staff-related costs of those divisions and an allocation of agency overhead. Total general and administrative costs allocated to capital projects and transportation services of $39.0 million increased in 2009 by $4.7 million, with the increased activity in the University Link project and the increase in operations activity with the approach of the Central Link light rail service implementation. Total general and administrative costs allocated to capital projects and transportation services in 2008 increased by $2.4 million, mostly due to the light rail projects and increased operations activity.

Total allocated overhead costs are reviewed for appropriateness, and any excess costs or costs with no continuing value are written off. Excess overhead costs written off in 2009 were $4.6 million higher than in 2008. Of this increase, $4.4 million or 81.5% of the overhead write-off was related to delays in the Sounder projects' construction schedules, which resulted in overhead being charged to these projects in excess of typical levels for comparable projects. The largest write-off was $2.0 million for the M Street to Lakewood Track and Signal project. This project was originally estimated to be completed in 2001 but delays resulting from protracted BNSF negotiations for right of way, environmental impact studies and coordination with the state on track improvements have pushed the completion date to the end of 2010.

General and Administrative

(in millions)	2009	2008	2007	% Increase 2009-2008	% Increase 2008-2007
Total General and Administrative cost before allocations	$ 59.6	$ 52.6	$ 48.6	13.2	8.2
Allocations to Operations	(9.1)	(7.5)	(6.9)	21.9	9.0
Allocations to Capital Projects	(29.9)	(26.8)	(25.0)	11.3	7.3
Project overhead written off	5.4	0.8	0.4	586.1	127.6
Net General and Administrative	**$ 26.0**	**$ 19.1**	**$ 17.1**	**36.2**	**11.8**

Depreciation

Depreciation expense increased in 2009 by $27.5 million or 71.8% from the prior year ($3.1 million in 2008). The increase in 2009 is due to the capitalization of the Central Link transit facilities, including guideways, revenue vehicles, machinery and rail access rights, which went into revenue service in July. In 2008, the higher depreciation reflects the continued capitalization of the track and facility improvements in the South corridor for Sounder, completion of the Mukilteo North platform, Lakewood Station, Issaquah Transit Center, Mercer Island Park and Ride and bus fleet replacements.

Non-Operating Revenues (Expenses)

Non-operating revenues (expenses) are substantially comprised of tax revenues, investment income and certain expenses not related to operation of the agency's three modes of operations. Net non-operating revenues increased by $157.2 million or 46.6% in 2009. In 2008, net non-operating revenues decreased $15.1 million or 4.3%.

The increase in sales tax revenues of $175.5 million had the most significant impact on non-operating revenues. In April 2009, Sound Transit's sales and use tax rate increased to 0.9%. This 0.5% increase over prior years was approved by the voters as part of the November 2008 ST2 package. In the absence of the sales and use tax rate increase, due to the continuing weak economy in the region, sales tax revenues for 2009 were $248.3 million, down $17.1 million or 6.4% from 2008. In 2008, sales tax revenues were down 5.3%.

Non-Operating Revenues and Expenses

(in millions)	2009	2008	2007	% Increase 2009-2008	% Increase 2008-2007
Non-operating revenues					
Sales and use tax	$ 440.9	$ 265.4	$ 280.3	66.2	(5.3)
Motor vehicle excise tax	67.3	68.6	72.4	(1.9)	(5.2)
Rental car tax	2.9	2.5	2.5	14.8	(1.3)
Investment income	12.4	23.6	25.0	(47.7)	(5.9)
Other revenues	0.9	7.9	0.1	(88.5)	6,577.3
Total	**$ 524.4**	**$ 368.0**	**$ 380.3**	**42.5**	**(3.2)**
Non-operating Expenses					
Non-operating expense	23.7	25.7	27.3	(7.9)	(5.5)
Interest expense	0.2	–	0.2	1,056.8	(92.8)
Discontinued/impaired projects	5.8	4.8	0.2	20.0	2,183.4
Total	**29.7**	**30.5**	**27.7**	**(3.0)**	**10.5**
Non-operating Revenues and Expenses	**$ 494.7**	**$ 337.5**	**$ 352.6**	**46.6**	**(4.3)**

Sales and Use Tax Revenues

(in millions)	2009	2008	2007	% Increase 2009-2008	% Increase 2008-2007
Sound Move	$ 248.3	$ 265.4	$ 280.3	(6.4)	(5.3)
ST2	192.6	–	–	–	–
Total	**$440.9**	**$ 265.4**	**$ 280.3**	**66.2**	**(5.3)**

Motor vehicle excise taxes decreased $1.3 million or 1.9% in 2009, reflecting the weaker economy compared to prior years. The 2008 motor vehicle excise tax included a $4.5 million refund for over collection of taxes going back to 2005. Investment earnings also decreased by $11.2 million, reflecting lower interest rates on cash and investment balances on hand during most of 2009. In 2008, the investment income decreased $1.4 million due to lower interest rates than in 2007.

Other non-operating expenses include light rail start-up costs, east corridor planning, supplemental mitigation in the Rainier Valley, costs not eligible to be capitalized and Owner-Controlled Insurance Programs ("OCIP") construction claims. In 2009, preparations for start-up of light rail increased, while east corridor planning, ST2 planning and election cost decreased. The largest decrease in non-operating expenses is related to OCIP claims. The reserve for OCIP construction claims loss reflects a significant number of claim settlements in 2009, resulting in a lower provision than was previously estimated by the actuary.

Discontinued or impaired project costs increased over 2008 since the project written off in 2009 had more costs associated with it than the 2008 discontinued project.

Capital Contributions

Capital contributions include federal grant funding, state and local contributions to Sound Transit, as well as contributions from Sound Transit to state and local governments pursuant to capital improvement or funding agreements. Net capital contributions increased in 2009 by $43.3 million, reflecting a significant decrease in the number of projects completed in 2009 that were contributed to other governments and an increase in state and local contribution to Sound Transit. In 2008, net capital contributions increased by $106.0 million due to an increase in federal grants received and a decrease in projects completed and donated to other governments.

The following table summarizes capital contributions by major category:

Capital Contributions

(in millions)	2009	2008	2007	% Increase 2009-2008	% Increase 2008-2007
Federal	$ 153.3	$ 161.8	$ 112.7	(5.2)	43.6
State and local governments	23.3	13.9	4.7	68.3	197.0
To other goverments	(25.5)	(67.9)	(115.6)	(62.4)	(41.3)
Total	**$ 151.1**	**$ 107.8**	**$ 1.8**	**40.2**	**5,953.1**

Federal contributions decreased in 2009 by $8.5 million and increased by $49.1 million in 2008. This reflects the completion of the Central Link and Airport Link projects. In 2009, the agency received $48.3 million in American Recovery and Reinvestment Act ("ARRA") funds, which were available for immediate drawdown on projects ready for construction. Most of the ARRA funds went to the University Link project, but Sounder and Express Bus projects also benefited. In 2008, significant projects receiving Federal funding included University Link, Central Link, Airport Link and Sounder corridor projects.

State and local government contributions increased by $9.5 million over 2008. The Washington State Department of Transportation contributed $9.5 million to the Sounder D to M Street project. In 2008, the state contributed $2.4 million to the Express Bus Mountlake Terrace Freeway Station project.

Contributions to other governments decreased in 2009 by $42.4 million. As contributions are dependent upon the timing and scope of project activities, there are significant fluctuations from year to year. Total contributions in both 2009 and 2008 decreased, reflecting the near completion of non-ST owned Sound Move projects. In 2009, significant

projects completed where Sound Transit does not retain ownership included the "L" Street Layover facility, 58th Street Improvements at the South Tacoma Station, the mobile communications infrastructure project, as well as additional costs incurred on several projects previously donated. In 2008, significant contributions were the South Everett Freeway Station and Phase I of the I-90 Two-way Transit and HOV lanes.

Capital Assets

As of December 31, 2009, Sound Transit had invested $4.2 billion in capital assets, net of accumulated depreciation, which included $3.1 billion of depreciable assets in service. This represents a $283.3 million or a 7.2% increase over 2008. With the completion of the Central Link project and the commencement of service in July and Airport Link in December, significant costs have been transferred from non-depreciable to depreciable assets. Capital Projects in Progress ("CIP") decreased $2.0 billion or 83.9% while depreciable assets increased $2.3 billion or 272.8%.

Land increased by $18.8 million in 2009, primarily related to acquisitions for the Sounder D to M Street extension, South Airport Link and University Link, while in 2008 it increased by $33.6 million, related to acquisitions for the University Link, and North Link extension.

Permanent easements increased in 2009 by $3.4 million with additional University Link acquisitions. In 2008, the easements increased $15.0 million with the acquisition of a permanent easement from the University of Washington for the University Link project.

Capital Projects in Progress had additions in 2009 of $397.9 million, primarily for University Link and Central Link.

Buildings, transit facilities, and rail, net of depreciation, increased in 2009 by $2.0 billion primarily related to the capitalization of the Central Link and Airport Link light rail projects. The Everett and South Tacoma Stations were also capitalized. In 2008, the increase was $70.1 million, primarily related to the capitalization of the Mukilteo Station North platform, Lakewood Station, Issaquah Transit Center, and the Mercer Island Park & Ride.

Rail access rights, net of depreciation, increased by $129.6 million in 2009 and by $10.6 million in 2008. Rail access costs reflect the cost of acquiring rights from the Cities of Seattle, Tukwila and Sea-Tac for the purposes of running the light rail in city right-of-way. These rights are acquired in exchange for land purchased for the cities to replace right-of-way used for the alignments. Prior to 2009, the rail access costs were acquired from BNSF for Sounder train service.

Table A-3
Sound Transit Capital Assets (net of depreciation)

	As of December 31,			% Change	
(in millions)	2009	2008*	2007*	2009-2008	2008-2007
Land	$ 379.0	$ 360.2	$ 326.6	5.2	10.3
Permanent easements	285.6	282.2	267.2	1.2	5.6
Capital projects in progress					
Sound Transit	385.1	2,414.5	2,068.1	(84.0)	16.8
Other governments	6.2	16.8	26.5	(63.1)	(36.6)
Total Non-Depreciable Assets	1,055.9	3,073.7	2,688.4	(65.6)	14.3
Buildings, transit facilities & rail	2,329.1	360.2	290.1	546.6	24.2
Rail access rights	445.3	315.7	305.1	41.1	3.5
Revenue vehicles	362.1	164.2	164.5	120.5	(0.2)
Equipment, vehicles & other	8.3	3.6	3.2	134.3	10.7
Total Depreciable Assets	3,144.8	843.7	762.9	272.8	0.6
Total Net Capital Assets	**$ 4,200.7**	**$ 3,917.4**	**$ 3,451.3**	**7.2**	**13.5**

*Prior year amounts reclassified to conform with current year classification between Sound Transit and Other Governments Capital Projects in Progress.

Revenue vehicles, net of depreciation, increased $197.9 million also due to the capitalization of the light rail vehicles. Equipment, Vehicles and Other also increased due to the capitalization of light rail assets.

More detailed information about Sound Transit's capital assets is presented in Note 5 to the Financial Statements.

Activity on capital projects in progress is summarized in the following table:

Table A-4
Major capital project activities from 2009 and 2008

	Sounder	Link	ST Express
2009	■ M Street to Lakewood Track & Signal ■ D Street to M Street Track & Signal	■ University Link ■ Central Line (CPS to 154th; Beacon Hill Station) ■ Airport Link (170th to 176th) ■ Traction power and other Systems ■ Light Rail Vehicles ■ Fare Collection ■ East Link (Downtown to Bellevue)	■ Evergreen Medical Center ■ Mountlake Terrace Freeway Station ■ I-90 2 Way Transit HOV ■ Newcastle Transit Center
2008	■ Track and signal projects on Everett to Seattle; Seattle to Auburn; and Auburn to Tacoma ■ Everett Station ■ South Tacoma Station ■ Lakewood Station	■ Central Line (CPS to 154th; Beacon Hill tunnel Guideway; and Martin Luther King Way) ■ Tukwila Roadwork and Parking Lot ■ Airport Link (154th to 160th; and 160th to 176th) ■ North Link (PSST to UW Station; and Northgate to 45th) ■ Beacon Hill Station ■ Traction Power and other Systems ■ Light Rail Vehicles	■ Issaquah Transit Center ■ South Everett Freeway Station ■ I-90 2 Way Transit HOV ■ Totem Lake Freeway Station/NE 128th

Long-Term Debt

In September 2009, the agency issued three series of bonds. The first series of Sales Tax and Motor Vehicle Excise Tax bonds have a par value of $23.2 million at a premium of $2.5 million. The proceeds of this series were used to refund a portion of the 2005A outstanding bonds. The second series of Sales Tax and Motor Vehicle Excise Tax bonds have a par value of $76.9 million, sold at par (taxable Build America Bonds – Direct Payment). The final series of Sales Tax Bonds have a par value of $300 million, sold at par (taxable Build America Bonds – Direct Payment). Total bond issue costs for the three series of bonds were $3.2 million.

Under state law, issuance of bonds payable from any type of taxes is subject to statutory debt limitations. Sound Transit is currently authorized to incur debt in an amount equal to 1½ percent of the value of taxable property within the service area, without securing voter approval for bonds. With the approval of 60 percent of the region's voters, Sound Transit may incur aggregate indebtedness of up to 5 percent of the value of taxable property within the service area. Based on the 2008 assessed valuations for collection of 2009 taxes, Sound Transit's non-voter approved remaining debt capacity is $5.9 billion and its voter approved remaining debt capacity is $23.2 billion.

Economic Conditions

The current economic recession has negatively impacted the agency's tax collections as weakness in retail and motor vehicle sales directly translate into lower tax revenues. Total 2009 tax revenues reflect a tax increase of 0.5% effective April 1, 2009 implemented to fund the ST2 program approved by voters in November 2008. Excluding this increase, tax revenues would have declined 6.4% versus 2008.

KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

Audit and Reporting Committee
Central Puget Sound Regional Transit Authority:

We have audited the accompanying balance sheets of Central Puget Sound Regional Transit Authority (a public corporation acting under the service name Sound Transit) as of December 31, 2009 and 2008, and the related statements of revenue, expenses, and changes in net assets and of cash flows (herein referred to as the "financial statements") for the years then ended. These financial statements are the responsibility of Sound Transit's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sound Transit's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sound Transit as of December 31, 2009 and 2008, and the changes in financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 13 through 22 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

KPMG LLP

June 18, 2010

Balance Sheets

(in thousands)	December 31 2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	$ 438,373	$ 144,887
Restricted assets (Note 3)	3,296	5,238
Investments (Note 3)	303,900	234,683
Taxes and other receivables (Notes 4)	157,098	132,743
Inventory	14,261	9,228
Prepaid Expenses	5,147	4,462
Total Current Assets	**922,075**	**531,241**
Non-Current Assets		
Capital assets, net of accumulated depreciation (Note 5)	4,200,684	3,917,380
Restricted assets (Note 3)	236,447	118,748
Investment held to pay capital lease obligation (Note 6)	62,464	61,617
Unamortized bond issuance costs	10,486	8,025
Prepaid expense and deposits	19,050	7,436
Total Non-Current Assets	**4,529,131**	**4,113,206**
Total Assets	**$ 5,451,206**	**$ 4,644,447**
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7)	$ 94,900	$ 96,530
Deferred receipts	1,612	3,377
Interest payable from restricted assets	19,038	13,988
Current portion, long-term debt (Note 8)	8,065	19,810
Other claims and short-term obligations	62,812	54,890
Total Current Liabilities	**186,427**	**188,595**
Non-Current Liabilities		
Long-term debt (Note 8)	1,571,248	1,204,052
Capital lease obligations (Note 6)	62,464	61,648
Other long-term obligations (Note 9)	9,652	12,171
Total Non-Current Liabilities	**1,643,364**	**1,277,871**
Total Liabilities	**1,829,791**	**1,466,466**
Commitments and Contingencies (Notes 6, 9, 11, 12)		
Net Assets		
Invested in capital assets, net of related debt	2,765,016	2,693,320
Restricted for debt service and other (Note 10)	78,263	109,998
Unrestricted	778,136	374,663
Total Net Assets	**3,621,415**	**3,177,981**
Total Liabilities and Net Assets	**$ 5,451,206**	**$ 4,644,447**

See Notes to Financial Statements.

Statements of Revenues, Expenses and Change in Net Assets

(in thousands)	December 31 2009	December 31 2008
Operating Revenues		
Passenger fares	$ 29,048	$ 26,611
Other operating revenue	3,419	3,942
Total Operating Revenues	**32,467**	**30,553**
Operating Expenses		
Operations and maintenance	143,045	116,748
General and administrative	25,978	19,073
Loss on disposal of assets	–	14
Depreciation, amortization and accretion	65,807	38,282
Total Operating Expenses	**234,830**	**174,117**
Loss from Operations	**(202,363)**	**(143,564)**
Non-Operating Revenues (Expenses)		
Sales tax	440,929	265,358
Motor vehicle excise tax	67,290	68,621
Rental car tax	2,869	2,498
Investment income	12,360	23,630
Recovery of prior year and insured losses	875	7,722
Gain on disposal of assets	–	159
Other revenues	37	65
Non-operating expenses	(23,697)	(25,732)
Interest expense	(182)	(16)
Discontinued and impaired projects	(5,784)	(4,818)
Total Non-Operating Revenues, Net	**494,697**	**337,487**
Income Before Capital Contributions	**292,334**	**193,923**
Federal capital contributions	153,283	161,771
Other capital contributions	23,336	13,867
Capital contributions to other governments	(25,519)	(67,848)
Net Capital Contributions	**151,100**	**107,790**
Change in Net Assets	**443,434**	**301,713**
Total Net Assets, Beginning of Year	**3,177,981**	**2,876,268**
Total Net Assets, End of Year	**$ 3,621,415**	**$ 3,177,981**

See Notes to Financial Statements.

Statements of Cash Flows

(in thousands)	December 31 2009	2008
Cash Flows from Operating Activities		
Cash receipts from fares	$ 28,836	$ 26,637
Cash receipts from other operating revenue	3,531	4,112
Payments to suppliers	(68,260)	(54,614)
Payments to transportation service providers	(103,999)	(60,361)
Payments to employees for wages and benefits	(31,485)	(27,002)
Net Cash Used by Operating Activities	**(171,377)**	**(111,228)**
Cash Flows from Non-Capital Financing Activities		
Taxes received	461,338	346,767
Net Cash Provided by Non-Capital Financing Activities	**461,338**	**346,767**
Cash Flows from Capital and Related Financing Activities		
Capital contributions from grants	184,795	124,575
Proceeds on issuance of bonds	399,732	–
Proceeds on land sales	1,895	580
Proceeds for betterments and recoverable costs	213	1,061
Purchase of property, vehicles and equipment	(939)	(1,317)
Payments for capital projects in progress	(284,097)	(523,473)
Payments to employees capitalized to capital projects in progress	(13,017)	(12,037)
Payments for bond principal	(44,810)	(19,175)
Payments for owner controlled insurance premiums	(8,315)	(9,979)
Cash paid for interest	(58,871)	(56,782)
Other	(615)	(241)
Net Cash Provided (Used) by Capital and Related Financing Activities	**175,971**	**(496,788)**
Cash Flows from Investing Activities		
Purchases of investments	(344,509)	(415,204)
Proceeds from sales or maturities of investments	258,133	243,033
Investment income	13,462	18,145
Net Cash Used by Investing Activities	**(72,914)**	**(154,026)**
Net Increase (Decrease) in Cash and Cash Equivalents	**393,018**	**(415,275)**
Cash and Cash Equivalents		
Beginning of year	223,565	638,840
End of Year	**$ 616,583**	**$ 223,565**
Cash and Cash Equivalents (Note 3)		
Unrestricted	$438,373	$144,887
Current restricted	1,009	2,152
Non-current restricted	177,201	76,526
	$ 616,583	**$ 223,565**

See Notes to Financial Statements.

Statements of Cash Flows, continued

(in thousands)	December 31 2009	December 31 2008
Loss from Operations	$ (202,363)	$ (143,564)
Adjustments to Reconcile Loss from Operations to Net Cash Used by Operating Activities		
Depreciation, amortization and accretion	65,807	38,282
Gain or loss on disposal of capital assets	–	14
Non-operating expenses	(24,067)	(23,121)
Changes in Operating Assets and Liabilities		
(Increase) decrease in accounts receivable	(286)	44
Decrease in due from other governments	813	3,619
Decrease (increase) in materials, parts and supplies	21	(65)
(Increase) in prepaid expenses	(234)	(312)
Increase (decrease) in accounts payable, accrued and other liabilities	3,660	(4,087)
Increase in salaries, wages and benefits payable	764	426
(Decrease) increase in deferred pass fare receipts	(1,772)	1,906
(Decrease) increase in due to other governments	(10,624)	12,271
Increase in OCIP loss fund	798	1,134
(Decrease) increase in other current liabilities	(3,894)	2,225
Net Cash Used by Operating Activities	**$ (171,377)**	**$ (111,228)**

(in thousands)	December 31 2009	December 31 2008
Supplemental Disclosures of Non-Cash Operating, Investing and Financing Activities		
Capital contributions to other governments	$ (25,519)	$ (67,848)
Capital contributions from Land Bank	7,657	8,119
Current liabilities in construction in progress	112,904	101,916
Interest income from investments held to pay capital leases, net	847	848
Interest expense on capital leases	(847)	(848)
Decrease in fair value of investments	(769)	(3,177)

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

1. ORGANIZATION AND REPORTING ENTITY

As provided under the Revised Code of Washington ("RCW") Chapter 81.112 applicable to a regional transit authority, the Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, was established in 1993. Sound Transit was formed to implement a high-capacity transportation system throughout parts of King, Pierce, and Snohomish counties in the State of Washington through the design, construction, and implementation of a commuter rail ("Sounder"), light rail ("Link") and regional express bus system ("ST Express").

Reporting Entity — Sound Transit is a special purpose government supported primarily through sales tax, motor vehicle excise tax and rental car tax in Sound Transit's operating jurisdiction. In addition, Sound Transit receives capital funding from federal, state and local agencies.

Sound Transit is governed by an 18-member board, seventeen of whom are appointed by the respective member county executives and confirmed by the council of each member county. Membership is based on the population from the portion of each county that lies within Sound Transit's service area. Representation on the board includes an elected official representing the largest city in each county and ensures proportional representation from other cities and from unincorporated areas of each county. The final board position is held by the Secretary of Transportation, Washington State Department of Transportation.

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, all organizations for which the primary government is financially accountable and other organizations that, by the nature and significance of their relationship with the primary government, would cause the financial statements to be incomplete or misleading if excluded. Based on these criteria, Sound Transit is considered a primary government and does not have any component unit relationships. Conversely, Sound Transit is not considered a component unit of any primary government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summary of significant accounting policies is presented to assist the reader in interpreting the financial statements and should be considered an integral part of the financial statements.

Basis of Accounting — The accounts are maintained and financial statements prepared using the economic resources measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and methods prescribed by the State Auditor under the authority of RCW Chapter 43.09 for proprietary funds. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. All applicable GASB pronouncements, as well as all Financial Accounting Standards Board ("FASB") codification have been applied, except for the FASB codification that contradict GASB pronouncements.

Tax revenues include taxes on retail sales of goods and services, rental car revenue and a motor vehicle excise tax. These taxes are levied within the district at a rate of 0.9% for sales and use, 0.8% on rental car revenue and 0.3% for motor vehicle excise. For collections April 1, 2009 and thereafter, the sales and use tax rate increased from 0.4% to 0.9%. These taxes are collected on Sound Transit's behalf by the Department of Revenue and the Department of Licensing of the State of Washington and are recorded in the period when the underlying transaction occurs on which the tax is imposed.

Operating revenues consist primarily of passenger fares, which are recognized in the period in which services are provided and are earned, and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of Sound Transit are included in the Balance Sheets. Depreciation of capital assets and amortization of deferred revenue is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

Capital Assets — Capital assets are stated at cost, except for donated capital assets, which are stated at the fair value on the date of donation. Expenditures for additions and improvements with a value in excess of $5,000 and a useful life of more than one year are capitalized. Expenditures for maintenance, repairs and minor improvements are charged to operations as incurred. Depreciation of capital assets is recorded using the straight-line method over the estimated useful lives of the assets and leasehold improvements over the shorter of the life of the asset or length of the related agreement as follows:

	Estimated Useful Life
Rail access costs	37–100 years
Buildings	8–30 years
Transit facilities, rail, and equipment	4–70 years
Pedestrian bridges	30-100 years
Operations maintenance facilities	30-75 years
Fixed guideways	30-150 years
Park-and-ride lots and shelters	10-20 years
Revenue vehicles—Cab cars and coach cars	40 years
Revenue vehicles—Locomotives	29 years
Revenue vehicles—Light rail	25-30 years
Revenue vehicles—Buses	7–12 years
Furniture and equipment, administrative vehicles and leasehold improvements	3–8 years

On an annual basis, Sound Transit evaluates whether events or circumstances have occurred affecting capital assets that are other than temporary in nature and which could result in an impairment of those assets. Impairment is considered to have occurred if there is a decline in the service utility that is large in magnitude and the event or circumstance is outside the normal life cycle of the asset. Impairment losses on assets that will no longer be used are measured based on the lower of carrying value or fair value of the affected asset. Impairment losses on assets that will continue to be used are measured using the best method that reflects the diminished service utility of the related asset.

All costs directly attributable to capital projects, as well as certain indirect costs that are allocated to the projects based on various applicable factors supporting the overhead rates used, are capitalized. Capital projects in progress balances include costs incurred for transportation projects not yet in service and are segregated between assets in which Sound Transit maintains a continuing ownership interest and capital assets that will be transferred to other governments upon completion.

Rail access costs include costs incurred or rights acquired that allow Sound Transit to operate its commuter rail and light rail service in the right of way of other entities. For its commuter rail service in the Tacoma-to-Seattle corridor these rights were acquired through payment to BNSF an amount equal to the necessary track and signal improvements to operate its service on that line and in the Everett-to-Seattle corridor through direct acquisition of easements and include Sound Transit's direct and indirect costs related to planning and design, environmental management and permitting for that corridor (see also note 12). For its light rail service, rail access rights were granted by the cities of Seattle, Tukwila and SeaTac in return for Sound Transit constructing public right of way improvements in each of these cities light rail transit ways. Costs included in the right of way for light rail service include the costs to acquire real property and relocate existing residents and businesses.

Interest costs on funds borrowed through tax-exempt debt to finance the construction or acquisition of certain capital assets are capitalized during the period of construction or acquisition and are depreciated over the life of the related assets once placed into service.

Capital Contributions to Other Governments — Pursuant to capital improvement agreements, Sound Transit has provided funding to or constructed assets for various governments or their wholly owned subsidiaries for transit-related capital improvements. For assets constructed for other governments, these costs are capitalized and included in capital projects in progress until the asset is substantially completed and accepted, at which time it is charged to contributions to other governments.

Cash and Cash Equivalents — Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less when purchased investments in the Local Government Investment Pool and the King County Investment Pool, which are managed by the Washington State Treasurer's Office and the King County Finance Division, respectively.

Compensated Absences — Vacation leave that has been earned but not paid is accrued. Similarly, sick leave is accrued as the benefits are earned but only to the extent that Sound Transit will compensate the employees through cash payments conditional on the employee's termination, retirement or death. Vacation pay, which may be accumulated up to 50 days, is payable upon termination, retirement or death. Sick leave is payable at the rate of 50% of accrued hours upon resignation, retirement or death for employees hired before January 1, 2004, and 25% thereafter and is limited to 120 days for termination other than for retirement or death.

Environmental Remediation Obligations — Environmental remediation activities are reviewed routinely to determine if an obligating event, as defined by GASB statement No. 49, has occurred, when the liability should be accrued and whether the cost should be expensed or capitalized. Generally such costs are incurred with respect to properties that Sound Transit is preparing for its own use or are required in the construction of its projects and subsequently resold. As such, these costs are recorded as incurred and capitalized to the project. Cost in excess of the property's fair market value, or that do not meet capitalization criteria under generally accepted accounting principles, are accrued and expensed as soon as a reasonable estimate can be obtained.

Inventory — Inventory includes land held for sale, parts, materials, supplies, and is recorded at the lower of purchased cost or net realizable value. These assets are reviewed periodically for slow-moving and obsolete items and any impairment in value is reflected as a charge to operations.

Investment Valuation — Investments are stated at fair value.

New Accounting Pronouncement — In May 2009, the FASB issued Statement No. 165, Subsequent Events ("SFAS 165") incorporated in Codification Topic 855 – "Subsequent Events". SFAS 165 modifies the definition of what qualifies as a subsequent event – those events or transactions that occur following the balance sheet date, but before the financial statements are issued, or are available to be issued – and requires entities to disclose the date through which it has evaluated subsequent events and the basis for determining that date. The Agency adopted SFAS 165 as of December 31, 2009. The Agency has performed an evaluation of subsequent events through June 18, 2010, which is the date these financial statements were issued.

Reclassifications — Certain reclassifications have been made to the 2008 Financial Statements to conform to the current year's presentation.

Restricted Assets — Restricted assets are assets set aside to meet externally imposed legal and contractual obligations. Restricted assets are used in accordance with their requirements and where both restricted and unrestricted resources are available for use, restricted resources are used first and then unrestricted resources as they are needed. In addition to assets set aside to meet externally imposed legal and contractual obligations, Sound Transit has also set aside two months of average annual operating expenses in cash and cash equivalents and has established an investment fund for capital replacement, as established by resolution of its board in 2007. As these cash and investment reserves are derived from internal restrictions, they are not included in restricted assets.

Revenue and Expense Classification — Sound Transit distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing passenger services in connection with Sound Transit's principal ongoing operations. The principal operating revenues are passenger fares. Sound Transit's operating expenses include labor, materials, depreciation, services, claims, purchased transportation and other expenses related to the delivery of passenger transportation within the Central Puget Sound region. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Undivided Interests — Sound Transit participates in a joint operation (or "undivided interest"), jointly governed with seven other agencies for the provision of regional smart card fare collection services. Sound Transit reports its undivided interest assets, liabilities, expenses, and revenues of the ORCA smart card within the financial statements, as they are specifically identifiable to the Agency.

Use of Estimates — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED ASSETS

Sound Transit's bank deposits are covered by the Federal Deposit Insurance Corporation ("FDIC") or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission ("PDPC"). All deposits not covered by the FDIC are covered by the PDPC. Cash held in the Local Government Investment Pool and the King County Investment Pool are managed by the Washington State Treasurer's Office and the King County Finance Division, respectively. These pools represent an interest in a group of securities and have no specific security subject to custodial risk.

All surplus cash is invested in accordance with Washington state statute, and an investment policy approved by Sound Transit's Board and certified by the Association of Public Treasuries of the United States and Canada. Qualifying investments under this policy include obligations of the United States government, Treasury and Agency securities, bankers' acceptances, certificates of deposit, commercial paper, general obligation municipal bonds and repurchase agreements. Sound Transit's investment policy and monitoring program addresses common deposit and investment risks as described below, with detailed information by investment type presented in the tables that follow. Modified duration is presented in years.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. For its internally managed and capital replacement funds, Sound Transit matches its investments to cash flow requirements and manages its exposure to fair value losses using the modified duration method, whereby the modified duration of fixed income securities held in its investment portfolios is compared to established benchmarks. Modified duration estimates the sensitivity of a bond's price to interest rate changes. Modified duration benchmarks for the internally managed fund was 0.56 and for the capital replacement fund was 1.49. For the Prior and Parity Bond Debt Service funds, interest rate risk is managed by using the specific identification method.

Concentration of Credit Risk — Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. The investment policy sets forth maximum concentration guidelines whereby no single Agency exceeds 50% of the overall portfolio, or 25% for repurchase agreements, general obligation bonds, PDPC financial institution sponsored investment accounts or 20% for deposit bank notes or 10% for certificates of deposit, bankers' acceptances, reverse repurchase agreements and A1/P1 commercial paper. Treasury securities may comprise up to 100% of the portfolio, as well as participation in the Washington State Treasurer's Local Government Investment Pool. Agency Securities (combined) may comprise up to 75% of the portfolio. Participation in the King County Investment Pool is limited to 50% of the portfolio.

Credit Risk — Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. All Agency securities and general obligation bonds as of 12/31/09 are rated AAA and the Certificate of Deposit is covered by the PDPC and all short term investments are rated A1/P1. The King County Investment Pool's rating of AAAf has not been restored as King County is waiting to implement new reporting software before seeking a re-rating. King County also needs to demonstrate to Standard & Poor's that their participation in the Washington State Treasurer's Local Government Investment Pool does not pose any concerns to the King County Investment Pool, as the Washington State Treasurer's Local Government Investment Pool is not rated. The Washington State Treasurer's Local Government Investment Pool is a 2a7-like pool and is unrated.

Custodial Credit Risk — Custodial credit risk is the risk that, in the event of the failure of the counterparty, Sound Transit would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments purchased by Sound Transit are held and registered in Sound Transit's name in the Trust Department or safekeeping department of a financial institution as established by a written third party safekeeping agreement between Sound Transit and the financial institution.

Cash, cash equivalents, investments and restricted assets are as follows:

Prior and Parity Bond Debt Service Reserve

(in thousands)	2009 Fair Value	2009 Maturity	2009 Call Date	2008 Fair Value	2008 Maturity	2008 Call Date
Investments						
Municipal Bonds						
Clark County Nevada GO Limited	$ 20,134	11/1/27	11/1/27*	$ 17,104	11/1/27	11/1/27*
Georgia State GO Unlimited	7,802	4/1/26	4/1/26*	6,442	4/1/26	4/1/26*
US Agency Securities						
Federal National Mortgage Association	10,088	4/12/22	4/12/22*	10,363	4/12/22	4/12/22**
Federal Home Loan Mortgage Corp.	7,702	2/7/28	2/7/13***	–	–	–
Federal Home Loan Mortgage Corp.	5,011	2/18/11	2/18/10**	–	–	–
	50,737			**33,909**		
Cash and Cash Equivalents						
Washington State Local Government Investment Pool	187			6,124		
	$ 50,924			**$ 40,033**		

* Continuously callable from this date forward
** One-time call
*** Quarterly callable from this date forward

Investments

(in thousands)	2009 Fair Value	2009 Modified Duration	2009 % of Portfolio	2008 Fair Value	2008 Modified Duration	2008 % of Portfolio
Investments - Internally Managed						
US agency securities:						
Federal Farm Credit Bank	$ 64,844	2.080	27.21%	$ 20,331	0.560	10.35%
Federal Home Loan Bank	34,283	1.420	14.39%	76,748	0.650	39.08%
Federal Home Loan Mortgage Corporation	39,916	1.570	16.75%	30,582	0.730	15.57%
Federal National Mortgage Association	60,411	2.830	25.35%	30,525	0.420	15.54%
US treasury securities	10,684	1.920	4.48%	12,855	0.990	6.54%
Municipal Bonds	20,128	0.440	8.45%	2,370	0.490	1.21%
Certificate of deposit	8,000	0.170	3.36%	23,000	0. 110	11.71%
	$ 238,266	**1.880**	**100.00%**	**$ 196,412**	**0.433**	**100.00%**
Investments - Capital Replacement						
US treasury securities	14,240	0.860	19.34%	–	–	–
US agency securities:						
Federal Farm Credit Bank	–	–	–	7,855	0.450	16.98%
Federal Home Loan Bank	35,680	1.410	48.46%	27,165	1.510	58.71%
Federal Home Loan Mortgage Corporation	23,714	1.250	32.21%	11,251	1.690	24.32%
	$ 73,634	**1.252**	**100.00%**	**$ 46,271**	**1.374**	**100.00%**

Cash and Cash Equivalents, and Other Restricted Assets

(in thousands)	December 31 2009	2008
Cash and Cash Equivalents		
Investment Pools:		
King County	$ 152,122	$ 145
Washington State Local Government *	454,749	181,294
FDIC or PDPC insured bank deposits	8,366	35,819
Cash on hand	1,159	183
	616,396	217,441
Investments and Debt Service Reserve		
Prior and Parity Bond Debt Service Reserve	50,924	40,033
Investments–Internally Managed	238,266	196,412
Investments–Capital Replacement	73,634	46,271
	362,824	282,716
Other Restricted Assets		
Deductible liability protection policy	2,287	3,086
Interest receivable on restricted investments	509	313
	2,796	3,399
Total Investments, Cash and Cash Equivalents and Other Restricted Assets	**$ 982,016**	**$ 503,556**

* Portion segregated for the 2005A Debt Reserve. See also table on Page 34.

(in thousands)	December 31 2009	2008
Balance Sheet Classifications		
Cash and cash equivalents	$ 438,373	$ 144,887
Current restricted assets:		
Cash equivalents	1,009	2,152
Deductible liability protection policy	2,287	3,086
	3,296	5,238
Investments	303,900	234,683
Non-current restricted assets:		
Cash equivalents	177,201	76,526
Investments	58,737	41,909
Interest receivable	509	313
	236,447	118,748
	$ 982,016	**$ 503,556**

4. RECEIVABLES

Receivables consist of the following.

(in thousands)	December 31 2009	2008
Taxes receivable	$ 96,872	$ 49,251
Grants receivable	49,480	65,647
Accounts receivable, net	379	2,185
Due from other governments	8,786	13,112
Interest receivable	1,581	2,548
	$ 157,098	**$ 132,743**

Amounts due from other governments include amounts due under the Puget Pass regional fare program, amounts reimbursable under interlocal agreements for operating expenses or capital contributions for transit facilities, and betterments. Payment terms are generally defined in the various agreements with other governments and range from 21 days to 60 days. Where payment terms are not defined by agreement, they are due in accordance with the terms specified in the invoice, which is generally 30 days.

5. CAPITAL ASSETS

Capital assets are summarized as follows:

(in thousands)	December 31 2008*	Additions	Disposals Retirements	Transfers	December 31 2009
Non-Depreciable Assets					
Land	$ 360,182	$ –	$ –	$ 18,783	$ 378,965
Permanent easements	282,171	–	–	3,402	285,573
Capital projects in progress					
Sound Transit	2,421,686	384,760	(33,417)	(2,387,882)	385,147
Other governments	9,684	13,108	(16,571)	–	6,221
Total Non-Depreciable Assets	**3,073,723**	**397,868**	**(49,988)**	**(2,365,697)**	**1,055,906**
Depreciable Assets					
Transit facilities, rail and heavy equipment	418,120	18	–	1,998,286	2,416,424
Rail access rights	350,136	158	–	146,209	496,503
Buildings and leasehold improvements	23,344	–	–	1,749	25,093
Revenue vehicles	243,861	–	(2,785)	213,117	454,193
Furniture, equipment and vehicles	15,461	966	(1,518)	6,336	21,245
Equipment under capital lease	940	–	(710)	–	230
Total Depreciable Assets	**1,051,862**	**1,142**	**(5,013)**	**2,365,697**	**3,413,688**
Accumulated Depreciation					
Transit facilities and heavy equipment	(73,116)	(30,371)	–	–	(103,487)
Rail access rights	(34,471)	(16,779)	–	–	(51,250)
Buildings and leasehold improvements	(8,124)	(796)	–	–	(8,920)
Revenue vehicles	(79,648)	(15,254)	2,785	–	(92,117)
Furniture, equipment and vehicles	(12,089)	(2,350)	1,504	–	(12,935)
Equipment under capital lease	(757)	(154)	710	–	(201)
Total Accumulated Depreciation	**(208,205)**	**(65,704)**	**4,999**	**–**	**(268,910)**
	843,657	**(64,562)**	**(14)**	**2,365,697**	**3,144,778**
Total Capital Assets, Net	**$ 3,917,380**	**$ 333,306**	**$ (50,002)**	**$ –**	**$4,200,684**

* Prior year amounts reclassified to conform with current year classification between Sound Transit and Other Governments Capital Projects in Progress.

(in thousands)	December 31 2007*	Additions	Disposals Retirements	Transfers	December 31 2008
Non-Depreciable Assets					
Land	$ 326,584	$ 361	$ (233)	$ 33,470	$ 360,182
Permanent easements	267,176	–	–	14,995	282,171
Capital projects in progress					
Sound Transit	2,068,072	559,514	(37,097)	(168,803)	2,421,686
Other governments	26,549	24,574	(41,439)	–	9,684
Total Non-Depreciable Assets	**2,688,381**	**584,449**	**(78,769)**	**(120,338)**	**3,073,723**
Depreciable Assets					
Transit facilities, rail and heavy equipment	332,690	55	–	85,375	418,120
Rail access rights	330,126	–	–	20,010	350,136
Buildings and leasehold improvements	23,178	–	–	166	23,344
Revenue vehicles	235,598	(674)	(3,430)	12,367	243,861
Furniture, equipment and vehicles	15,926	1,297	(2,115)	353	15,461
Equipment under capital lease	940	–	–	–	940
Total Depreciable Assets	**938,458**	**678**	**(5,545)**	**118,271**	**1,051,862**
Accumulated Depreciation					
Transit facilities and heavy equipment	(58,460)	(14,656)	–	–	(73,116)
Rail access rights	(24,989)	(9,482)	–	–	(34,471)
Buildings and leasehold improvements	(7,331)	(793)	–	–	(8,124)
Revenue vehicles	(71,065)	(11,986)	3,403	–	(79,648)
Furniture, equipment and vehicles	(13,118)	(1,057)	2,086	–	(12,089)
Equipment under capital lease	(538)	(219)	–	–	(757)
Total Accumulated Depreciation	**(175,501)**	**(38,193)**	**5,489**	**–**	**(208,205)**
	762,957	**(37,515)**	**(56)**	**118,271**	**843,657**
Total Capital Assets, Net	**$ 3,451,338**	**$ 546,934**	**$ (78,825)**	**$ (2,067)**	**$ 3,917,380**

* Prior year amounts reclassified to conform with current year classification between Sound Transit and Other Governments Capital Projects in Progress.

During 2009, Sound Transit capitalized $62.3 million of interest costs, ($57.8 million in 2008), representing interest cost incurred in respect of the Agency's capital program for the year, net of premium, discounts and bond issue costs, on its outstanding bonds (see Note 8).

6. CAPITAL AND OPERATING LEASES

Capital lease obligations are comprised of the following:

(in thousands)	2009	2008
Lease/leaseback	$62,464	$61,617
Copier leases	32	198
	62,496	61,815
Less current portion*	(32)	(167)
	$ 62,464	$ 61,648

* Current portion included in the other claims and short-term obligations

Lease/Leaseback — On May 31, 2001, Sound Transit entered into a transaction to lease 22 rail passenger cab and coach cars and 5 locomotives (the "headlease") to an investor and simultaneously subleased the vehicles back (the "sublease"). Under these transactions, Sound Transit maintains the right to continued use and control of the assets through the end of the leases and is required to insure and maintain the assets. The headlease and sublease have been recorded as capital leases for accounting purposes.

The vehicles had a fair market value of $61.3 million with a book value of $37.7 million at closing. Sound Transit received a prepayment equivalent to the net present value of the headlease obligations totaling $61.3 million. From those proceeds, $50.4 million was deposited with AIG-FP Special Finance Ltd. to partially meet Sound Transit's obligations under the sublease payments. In addition, $5.7 million was deposited with AIG Matched Funding Corp. and invested in securities issued or guaranteed by the United States government to meet the remaining obligations under the sublease. The remaining $4.9 million (net of closing costs of $363 thousand) was retained by Sound Transit and recorded as non-operating revenues in the year ended December 31, 2001.

The net present value of the future sublease payments has been recorded as a long-term capital lease obligation. The underlying investments have been structured to meet all future obligations under the sublease when due, and as such, have been recorded to equal the sublease obligations on the accompanying balance sheet.

The lease documentation established minimum credit levels by AIG for the equity and debt defeasance accounts. At the time these transactions closed, AIG was rated "AAA" by S&P and "Aaa" by Moody's. However, starting in March 2005, AIG suffered a series of credit rating downgrades to reach a level of "A-" by S&P and "A3" by Moody's by end of year 2009. As a result of these rating downgrades under the lease transaction Sound Transit is required to replace AIG for its undertaking agreements and credit enhancements provision in the transaction and AIG is required to post collateral for the debt defeasance accounts.

Sound Transit is in the process of negotiating an agreement with the transaction participants on the requirements to replace the debt defeasance, letter of credits and payment undertaker as required under the transaction. This agreement provides for Sound Transit to potentially provide additional collateral in a securities custodial account for the benefit of the equity investor to satisfy Sound Transit's obligation under the Participation Agreement related to AIG equity defeasance accounts and credit enhancement. In an event of default in the upcoming year, the investor could demand a termination payment from Sound Transit of approximately $15.8 million.

Net changes in the sublease are shown in the following table.

(in thousands)	2008	2007
Net Sublease, January 1	$ 61,617	$ 60,770
Accrued interest	4,612	4,548
Less payment	(3,765)	(3,701)
Net Sublease, December 31	**$ 62,464**	**$ 61,617**

Amtrak Lease/Sublease — In September 2000, Sound Transit entered into a 40-year agreement to lease its locomotives, passenger coaches and cab cars ("rolling stock") to the National Railroad Passenger Corporation ("Amtrak") for $1. Under the agreement, Amtrak is obligated to repair, maintain and service the rolling stock at Amtrak's maintenance facility in return for payment by Sound Transit. By separate agreement, Sound Transit assigned to Amtrak its commuter rail operating agreement, which it had entered into with the BNSF Railway Company ("BNSF") in May 2000 to provide commuter rail service. In order to give BNSF possession and use of the rolling stock for purposes of providing commuter rail service on Amtrak's behalf for Sound Transit, Amtrak entered into a 40-year sublease of the rolling stock to BNSF for a nominal rental payment of $1.

Under the legal structure of these transactions and pursuant to a Department of Revenue ruling, the equipment is exempted from Washington State sales and use taxes; Sound Transit and Amtrak have agreed by a Memorandum of Understanding to use funds that would otherwise be payable for these taxes for projects that mutually benefit Pacific Northwest intercity rail passenger service. Sound Transit maintains title and continuing control of the assets through the end of the lease, upon which the assets will be returned to Sound Transit.

Operating Rentals — Sound Transit has entered into leases of ground, office space, parking, land, storage at various locations, as well as equipment leases under non-cancelable operating leases in excess of one year with lease terms expiring in 2009 and beyond 2014, some with options to renew. Significant lease arrangements include office space and parking adjacent to Union Station and a ground lease for the Rider Services Building. In 2009, Sound Transit entered into two new 10-year lease agreements for space adjacent to Union Station and extended the existing adjacent office space lease for an additional 5 years.

Minimum lease payments through 2014 are as follows:

Operating rentals, commitments next 5 years

(in thousands)	
2010	$ 3,316
2011	3,362
2012	3,448
2013	3,552
2014	3,637
	$ 17,315

Total rental expenses for 2009, which include non-cancelable leases as well as other month-to-month rentals, were $2.9 million, of which $506 thousand was for capital projects in progress. Total expenses for 2008 were $3.0 million, of which $725 thousand was for capital projects in progress.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

(in thousands)	2009	2008
Accounts payable	$ 24,473	$ 35,891
Accrued liabilities	30,502	7,716
Due to other governments	35,569	50,565
Accrued salaries, wages and benefits	2,683	2,090
Retainage payable	1,673	268
	$ 94,900	**$ 96,530**

8. LONG-TERM DEBT

Long-term debt consists of the following:

(in thousands)	2009 Beginning Balance	Additions	Reductions	2009 Ending Balance	Amounts Due within One Year
Bonds Payable:					
Series 1999 Bonds, at par	$ 336,665	$ –	$ (4,810)	$ 331,855	$ 5,065
Series 2005A Bonds, at par	422,815	–	(25,000)	397,815	–
Series 2007A Bonds, at par	435,445	–	(15,000)	420,445	3,000
Series 2009P-1 Bonds, at par	–	23,155	–	23,155	–
Series 2009P-2T Bonds, at par	–	76,845	–	76,845	–
Series 2009S-2T Bonds, at par	–	300,000	–	300,000	–
	1,194,925	400,000	(44,810)	1,550,115	8,065
Plus unamortized premium	34,908	2,498	(2,614)	34,792	–
Less unamortized discount	(5,971)	–	377	(5,594)	–
Total bonds payable	**1,223,862**	**402,498**	**(47,047)**	**1,579,313**	**8,065**
Total Long-Term Debt	**$ 1,223,862**	**$ 402,498**	**$ (47,047)**	**$ 1,579,313**	**$ 8,065**

(in thousands)	2008 Beginning Balance	Additions	Reductions	2008 Ending Balance	Amounts Due within One Year
Bonds Payable:					
Series 1999 Bonds, at par	$ 341,285	$ –	$ (4,620)	$ 336,665	$ 4,810
Series 2005A Bonds, at par	422,815	–	–	422,815	–
Series 2007A Bonds, at par	450,000	–	(14,555)	435,445	15,000
	1,214,100	–	(19,175)	1,194,925	19,810
Plus unamortized premium	37,708	–	(2,800)	34,908	–
Less unamortized discount	(6,348)	–	377	(5,971)	–
Total bonds payable	**1,245,460**	**–**	**(21,598)**	**1,223,862**	**19,810**
Total Long-Term Debt	**$ 1,245,460**	**$ –**	**$ (21,598)**	**$ 1,223,862**	**$ 19,810**

In the ordinary course of financing its activities, Sound Transit issues debt as shown in the tables below. There are currently two categories of debt: Prior Bonds and Parity Bonds. Prior Bonds have first claim upon the local option taxes. Parity Bonds are subordinate to the Prior Bonds, but they have the same priority of claim upon the sales and rental car taxes among each Parity Bond issue. The following tables set forward average and effective coupon rates, rating agency information, principal payment commencement, fair value, amounts currently restricted for debt service and debt requirements to maturity.

Prior Bonds

The Prior Bonds are comprised of the 1999, 2009P-1 and 2009P-2T issues. These bonds are payable in February and August of each year and are secured by sales and use tax, motor vehicle excise tax and rental car tax.

Prior Bonds

		Average Rate		Ratings		Principal	Fair Value*		Principal and Interest Restricted	
(in millions)	Issue Date	Coupon	Effective	Moody's	S&P	Payment Commencement	2009	2008	2009	2008
Series 1999	Dec 1, 1998	4.88	5.03	Aa2	AAA	Feb 1, 2006	346.40	308.50	11.90	11.70
Series 2009P-1	Sept 29, 2009	4.31	2.52	Aa2	AAA	Feb 1, 2015	25.60	na	0.30	na
Series 2009P-2T	Sept 29, 2009	5.01	3.31**	Aa2	AAA	Feb 1, 2020	74.00	na	1.00	na

* Estimated using quoted market prices
** Effective rate reduced due to 35% subsidy provided by US Government for Build America Bonds

Parity Bonds

The Parity Bonds are comprised of the 2005A, 2007A and 2009S-2T issues. These bonds are payable in May and November each year and are secured by sales and use tax and rental car tax. On September 29, 2009, $25 million of the 2005A bonds were defeased with proceeds from the 2009P-1 bonds.

Parity Bonds

(in millions)	Issue Date	Average Rate		Ratings		Principal	Fair Value*		Principal and Interest Restricted	
		Coupon	Effective	Moody's	S&P	Payment Commencement	2009	2008	2009	2008
Series 2005A	March 31, 2005	4.95	4.60	Aa3	AAA	Nov 1, 2011	421.90	377.00	3.30	3.50
Series 2007A	Dec 18, 2007	4.99	4.76	Aa3	AAA	Nov 1, 2008	423.70	371.30	6.40	18.61
Series 2009S-2T	Sept 29, 2009	5.49	3.62**	Aa3	AAA	Nov 1, 2029	287.40	na	4.20	na

* Estimated using quoted market prices
** Effective rate reduced due to 35% subsidy provided by US Government for Build America Bonds

Sound Transit is required to maintain certain minimum deposits as defined in the respective bond resolution for each bond issue to meet debt service requirements. In addition, Sound Transit is required to maintain a common debt service reserve account for all Prior Bonds and series specific debt service reserve accounts for the Parity Bonds. As of December 31, 2009, the common debt service reserve account for Prior bonds was comprised of a surety policy in the amount of $31.7 million purchased in 1999 and a $7.9 million cash reserve funded at the time the 2009P bonds were issued. For the Parity Bonds a cash reserve was established in 2005 for the 2005A bonds. The required balance for the Parity debt service reserve account was $41.1 million at the end of 2009.

Under the bond covenants, Sound Transit is required to value at market the investments held in the both debt service reserve accounts annually and any deficiency be made up within six months after the date of the valuation. No reserve account was required to be established for the 2007A and 2009S-2T series bonds. Reserve account proceeds are primarily invested in AAA rated Agency and General Obligation bonds.

Proceeds from all bond issues except for the 2009P-1 are used for funding Agency capital construction projects. The 2009P-1 issue was for the purpose of refunding a portion of the 2005A bonds. The partial defeasance of the 2005A Series bonds decreased aggregate debt service payments by $3.6 million resulting in a net present value savings to the Agency in the amount of $2.5 million.

Debt service requirements to maturity for bonds payable

Year ending December 31, 2009 (in thousands)	Principal	Interest	Total
2010	$ 8,065	$ 78,864	$ 86,929
2011	18,465	77,791	96,256
2012	19,195	76,948	96,143
2013	20,135	76,006	96,141
2014 - 2018	19,395	75,036	94,431
2019 - 2023	145,385	357,146	502,531
2024 - 2028	268,985	304,847	573,832
2029 - 2033	315,885	233,662	549,547
2034 - 2036	325,040	159,690	484,730
2035 - 2039	409,565	68,293	477,858
	$ 1,550,115	**$ 1,508,283**	**$ 3,058,398**

The American Recovery and Reinvestment Act of 2009 created the Build America Bond (BAB) program, which authorizes state and local governments to issue BABs as taxable bonds in 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax-exempt municipal bonds. The issuers receive a direct federal subsidy payment for a portion of their borrowing costs on BABs equal to 35 percent of the total coupon interest paid to investors. The direct federal subsidy once earned, will be considered a nonexchange transaction separate from the interest payments made by the Agency and will be recorded in other nonoperating revenue when Sound Transit makes its interest payment. The 2009P-2T bonds and the 2009S-2T bonds are Build America Bonds.

9. OTHER LONG-TERM OBLIGATIONS

Other long-term obligations include provisions for asset retirement obligations, uninsured losses related to the agency's risk management program and employee compensated absences as follows:

(in thousands)	2009 Beginning Balance	Additions and Accretion	Reductions	2009 Ending Balance	Amounts Due within One Year
Asset Retirement Obligations					
Sounder station platforms	$ 953	$ 48	$ –	$ 1,001	$ –
Tacoma Link surface rail	1,380	69	–	1,449	–
Total asset retirement obligations	2,333	117	–	2,450	–
Uninsured Losses					
Owner Controlled Insurance Program	8,522	9,434	(13,329)	4,627	1,030
Transit operations	1,194	1,599	(1,585)	1,208	385
Total uninsured losses	9,716	11,033	(14,914)	5,835	1,415
Compensated Absences	3,444	3,843	(3,181)	4,106	1,324
Total other long-term obligations	**$ 15,493**	**$ 14,993**	**$ (18,095)**	**$ 12,391**	**$ 2,739**

(in thousands)	2008 Beginning Balance	Additions and Accretion	Reductions	2008 Ending Balance	Amounts Due within One Year
Asset Retirement Obligations					
Sounder station platforms	$ 912	$ 41	$ –	$ 953	$ –
Tacoma Link surface rail	1,332	48	–	1,380	–
Total asset retirement obligations	2,244	89	–	2,333	–
Uninsured Losses					
Owner Controlled Insurance Program	6,297	3,503	(1,278)	8,522	1,909
Transit operations	453	741	–	1,194	252
Total uninsured losses	6,750	4,244	(1,278)	9,716	2,161
Compensated Absences	3,119	3,538	(3,213)	3,444	1,161
Total other long-term obligations	**$ 12,113**	**$ 7,871**	**$ (4,491)**	**$ 15,493**	**$ 3,322**

Asset Retirement Obligations — In the course of entering into agreements with other governments and rail providers to construct the Agency's capital assets used in providing transportation services, certain of those agreements contain clauses that impose a legal burden on the Agency to remove all or a portion of those constructed assets at the termination of those agreements. The FASB Codification requires that these costs and related obligations be recognized where they exist.

Risk Management — In the ordinary course of planning, building, and operating its regional transit systems and services to improve mobility for the Central Puget Sound, which includes construction projects and agency and rail operations, Sound Transit is exposed to various types of risks and exposures of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to persons; and natural disasters. Sound Transit has established a comprehensive risk management and insurance program. For its agency and railroad operation a commercial insurance program has been put in place that provides first-level coverage for property, primary and excess liability, commercial auto liability, premises pollution liability, public officials & employment practices liability, crime & fidelity, and fiduciary liability to provide protections from these risks and exposures.

For ST Express bus operations, under Sound Transit's agreements, insurance coverage is provided by its bus partner agencies, which is included in the pro-rata transit operations cost rate established by Sound Transit and its bus partner agencies. However, under its interagency agreement for ST Express Bus Service Operations and Maintenance in Pierce County, Sound Transit reimburses Pierce Transit for the costs of all individual claims paid up to $1 million per occurrence for all liability claims generated from ST Regional Express Bus service through December 31, 2009. Subsequent to year-end, the Agency entered into a new operations and maintenance agreement with each of its partner agencies. Under the new agreement with Pierce Transit, insurance coverage is provided by Pierce County in the same manner as under its bus partner agreements with King County Metro and Community Transit.

Sound Transit also utilizes two Owner-Controlled Insurance Programs ("OCIP") for all general liability claims by third-party injuries and property damage related to project construction activities carried out by third-party contractors. Its first program was secured in 2001, primarily for construction of the Central Link light rail initial segment and subsequently amended to include the Airport Link light rail segment and provides coverage from January 1, 2001 through December 31, 2009, with three years of completed operations coverage. With the professional liability and contractor's pollution policy, coverage is provided through December 31, 2016, with an additional three-year reporting period extending to December 31, 2019. This insurance policy was extended to provide Professional Liability and Contractor's Pollution Liability insurance coverage for the final design of the University Link light rail project.

A second OCIP was secured in October 2008 for the University Link Light rail segment. The funding of the premium for this program was structured with initial premium payments of $6.8 million in 2008 followed by premium payments in 2009 and 2010 of $6.2 million and $5.8 million respectively, with coverage provided from October 20, 2008 through September 30, 2016. The U-Link OCIP insurance coverage includes primary commercial general liability, excess liability, builders risk, and contractors pollution liability.

On each of its policies, Sound Transit is responsible for deductibles or self-insurance retentions, per occurrence or on a claims-made basis. For its Central Link Initial Segment and Airport Link Light Rail OCIP general liability policy, Sound Transit also entered into a deductible liability protection policy to supplement the deductible self-insured retention for the probable maximum claims exposure at the inception of the policy, estimated at $6.5 million. This amount was deposited with the insurer in an interest-bearing loss fund account. Annually, Sound Transit engages an actuary to prepare an actuarial report in order to estimate its total claim exposure under all of these risk management and insurance programs. Claim amount estimated to be paid within the next year are included in other current liabilities.

Compensated Balances — Amounts estimated to be paid within the next year are included in accrued salaries, wages and benefits.

10. RESTRICTED NET ASSETS

Restricted net assets consist of the following:

(in thousands)	2009	2008
Debt service	$ 57,691	$ 60,156
Contractual arrangements	18,285	44,604
Deductible liability protection policy	2,287	3,086
State appropriation	–	2,152
	$ 78,263	**$ 109,998**

11. EMPLOYEE BENEFITS

Sound Transit provides a defined contribution money purchase plan and trust ("401(a) Plan") to its employees. Prior to December 31, 1999, employees had a choice of participating in either the 401(a) Plan or in the Washington Public Employees' Retirement System ("PERS"). In 1999, the Washington State Legislature amended the laws governing PERS requiring employers to either terminate their participation in PERS or permit all new employees to participate in PERS regardless of their simultaneous participation in a 401(a) plan. Effective December 31, 1999, Sound Transit terminated its status as a PERS employer with regard to all employees hired after that date. Individuals who were active members at that date were eligible to continue their membership in PERS for the duration of their continuous employment with Sound Transit. At December 31, 2009, 2008 and 2007, there was one remaining employee participating in PERS.

A summary of the 401(a) Plan is as follows:

401(a) Plan — A defined contribution money purchase plan and trust was established for the Agency in 1994 with the adoption of Board Resolution No. 32. This was amended by Resolution No. 100 in 1997 to recognize the contribution made to Sound Transit by its employees. The ICMA Retirement Corporation administers the Central Puget Sound Regional Transit Authority Pension Plan and serves as the plan's trustee. This plan is a fixed employer system, and membership in the system includes all full-time Sound Transit employees and elected officials. The vesting schedule of the plan is 20% immediately upon employment, 40% after one year of service, 60% after two years, 80% after three years and 100% after four years. Employees are responsible for directing the investment of their contributions and Sound Transit's contributions.

Any eligible employee who was employed on the effective date of this plan was eligible to participate in the plan. Any other eligible employee shall be eligible to participate on the first day of employment.

Sound Transit's actual contribution rates, which were the required contribution rates, are expressed as a percentage of covered payrolls. The amount of covered payroll during 2009 and 2008 was $33.1 and $28.6 million, respectively, and total payroll was $33.7 and $29.2 million. The required contribution rates expressed as a percentage of covered payroll and required Sound Transit contributions during 2009, 2008, and 2007 are as follows:

	Contributions Rate			Contributions		
(in thousands)	2009	2008	2007	2009	2008	2007
Employer	12%	12%	12%	$ 3,972	$ 3,437	$ 3,213
Employee	10%	10%	10%	3,310	2,864	2,678
Total	**22%**	**22%**	**22%**	**$ 7,282**	**$ 6,301**	**$ 5,891**

12. COMMITMENTS AND CONTINGENCIES

Operations and Maintenance Agreements — In May, 2000, Sound Transit entered into a 40-year agreement with BNSF for the operation of commuter trains by BNSF between Seattle and Tacoma and the compensation paid to BNSF for train crews, maintenance-of-way and other expenses incurred in the operation of the Sounder service. The compensation is based on the actual costs of crew, dispatch and management, as well as costs for maintenance of way plus performance incentives.

In September 2000, Sound Transit entered into an agreement with Amtrak for the operations and maintenance of its Sounder commuter rail rolling stock, expiring December 31, 2009. A memorandum of agreement was entered into for the continuance of operations from January to February 2010 under the original contract terms. A new five year agreement was entered into effective March 1, 2010 with one two year option for renewal at Sound Transit's consent and three one year renewal options at the mutual consent of both parties. Under the agreement, Sound Transit pays a flat monthly fixed price dependent upon the number of one-way trips and train sets in operation for a baseline set of operating assumptions. Sound Transit pays a negotiated rate for additional service above this baseline operating plan. See related agreements described in Note 6: Amtrak Lease/Sublease.

In June 2002, Sound Transit entered into an agreement with King County to share Downtown Seattle Transit Tunnel ("DSTT") maintenance and operation costs in exchange for the right to use the DSTT for light rail operations. Sound Transit's obligations include transfer of betterments, reimbursement of costs, and payment of a share of county debt service owed for the original tunnel construction. Sound Transit is also committed under this agreement to share costs for future capital repairs or replacements as they arise. Compensation is calculated as reimbursement of certain county costs based on fixed percentages related to Sound Transit's share of usage of the DSTT. The DSTT agreement is in effect for five years after the opening of light rail operations at which point the agency will either be required to purchase the DSTT or the agency and King County will enter into another operating agreement for joint use.

In June 2003, Sound Transit entered into a Central Link Light Rail system operation and maintenance agreement with King County. Compensation for this service is based on reimbursement for county expenses based on a fixed amount for a baseline level of service, with additional costs billed for service changes directed by Sound Transit. This agreement was revised effective December 21, 2009 for a term of five years.

In December 2003, Sound Transit entered into an agreement with BNSF for the operation of the commuter trains by BNSF between Seattle and Everett and the compensation paid to BNSF for train crews, maintenance-of-way and other expenses incurred in the operation of the Sounder service. The compensation is structured as an hourly rate per train mile operated for a baseline service plan, with inflation adjusters plus performance incentives. The term of the agreement is for 12 years with an option of five additional years that must be agreed to by both parties, for a maximum term of 17 years. In addition, a first amendment was executed to the existing long-term agreement for commuter service from Seattle to Tacoma, covering service for the Lakewood-to-Tacoma corridor, provided Sound Transit eventually operates in the corridor.

In December 2009, Sound Transit's five-year agreements expired with Community Transit, King County Department of Transportation and Pierce Transit ("purchased transportation providers") for the operation of its ST Express bus service within Sound Transit's service area. New service agreements were entered into with King County Department of Transportation and Pierce Transit effective January 1, 2010 and expiring December 31, 2012 with two 1-year renewal options at the mutual consent of both parties. The Community Transit 2004 service agreement was extended to March 31, 2010, following which a new service agreement was entered into effective April 1, 2010 and expiring March 31, 2012, with two 1-year renewal options at the mutual consent of both parties. Service is compensated based upon a fixed fee agreed to annually, with certain items subject to variable pricing, such as fuel and special services.

Agreements with BNSF for Sounder Commuter Rail Service Easements in the Everett-to-Seattle and Lakewood-to-Tacoma Corridors — In December 2003, Sound Transit entered into a number of agreements with BNSF for, among other things, the purchase of four perpetual easements between 2003 and 2007, each in exchange for a payment of $50 million for commuter rail service between Everett and Seattle, the purchase of railroad right-of-way between Nisqually and Tacoma for service and station improvements, terms for joint use of the railroad right-of-way and the purchase of operation services in each corridor. Each easement allows the addition by Sound Transit of one round trip commuter train service.

The Joint-Use Agreement for the Everett-to-Seattle corridor provides the mechanism for determining the cost to Sound Transit for the maintenance-of-way and rehabilitation activities on the corridor.

The Joint-Use Agreement for the Lakewood-to-Tacoma corridor sets forth the cost to BNSF for the maintenance-of-way and rehabilitation activities on the corridor and Sound Transit and BNSF's responsibilities during the interim period before Sound Transit starts operating on each portion of the corridor. However, as Sound Transit incrementally commences construction of the line, Sound Transit will be responsible for maintenance activities on those sections.

Amended and Restated Agreement for Regional Fare Coordination System — In April 2009, Sound Transit entered into an amended agreement establishing the design, implementation, operation and maintenance of the Regional Fare Coordination System among seven participating agencies that simplifies and establishes a common, non-cash fare system through their service areas. The original agreement in April 2003, established the respective roles and responsibilities of the Agencies in the Development and Operating Phases of the RFC System. This amended agreement further defines and establishes a framework for the Operating Phase of the system, which launched on April 1, 2009. The participating agencies have committed to utilizing the system for a minimum of 10 years and funding a proportionate share of regionally shared costs.

The following table represents the amounts included in these financial statements of Sound Transit's undivided interest:

	December 31 2009	December 31 2008
Current Assets		
Cash and cash equivalents	$ 2,112,276	–
Accounts Receivable	1,429,277	–
Total Assets	**$ 3,541,553**	**–**
Current Liabilities		
Accounts payable and accrued liabilities	$ 2,697,812	–
Deferred Receipts	843,741	–
Total Liabilities	**$ 3,541,553**	**–**
Total Operating Revenues	**$ 3,219,788**	–
Total Expenses	**$ 60,550**	–

Governmental Agreements — In its ordinary course of planning design and construction of its projects, Sound Transit enters into agreements with other governments. These agreements establish the working relationships with other the governmental entities and may obligate Sound Transit to pay for services over the lifecycle of a construction project, and often include provisions to transfer property or property rights upon completion of construction. Significant governmental agreements include:

City of Seattle Construction Services Agreement: Entered into on November 13, 2003, this agreement covers areas including, quality assurance and inspections, emergency services, traffic signal design, and utility work by city crews for the initial segment of the Central Link. The agreement also commits Sound Transit to accomplish certain betterments and utility upgrades, which are to be reimbursed by the city. All commitments under this agreement were substantially completed as of December 31, 2009.

Port of Seattle Construction Services Agreement: Entered into on April 17, 2006, this agreement provides payment terms and assignments regarding which entity serves as contract administrator, and which serves as construction manager, for the various contract packages making up the Airport Link project. The agreement also stipulates operating terms applicable after construction. The agreement will not expire as long as Sound Transit operates rail transit systems on the segment.

University of Washington Master Implementation Agreement: Entered into on July 2, 2007, this agreement allows Sound Transit entry to the University's Seattle Campus to construct Link light rail; establishes compensation amounts for certain staffing costs, parking mitigation in the amount of $15.2 million, which was paid in 2007, and consideration for easements granted by the University in the amount of $20.0 million, paid May 2008. Both parties anticipate additional agreement(s) providing terms for the operation of Link light rail on University property.

City of Seattle Funding and Cooperative Agreement for the implementation of the First Hill Streetcar Connector Project: Entered into on November 11, 2009, this agreement establishes the minimum scope of work for the project and funding obligations for Sound Transit. Until the City completes an environmental review and Sound Transit makes a final decision to fund the project, reimbursements to the City are limited to $5.4 million for environmental documentation and conceptual engineering.

City of Seattle Construction Services Agreement: Entered into on August 12, 2009, this agreement covers areas including quality assurance, inspections, emergency services, traffic signal design, and utility work by city crews during Sound Transit's development of the University Link Project up to $6.0 million. The agreement also commits Sound Transit to accomplish certain improvements as requested by the City, at the City's expense.

WSDOT Construction Administration Agreement: Entered into on March 16, 2009, this agreement establishes the terms of construction, construction engineering, contract administration, support and payments for the WSDOT to construct the I-5, Mountlake Terrace Freeway Station. Sound Transit's estimated expense for this project is $22.6 million.

WSDOT Funding and Cooperative agreement: Entered into on November 2008, this agreement establishes the project scope, management and construction of certain improvements within the Lakewood track improvements and Point Defiance Bypass project. WSDOT will reimburse Sound Transit for actual costs incurred up to a maximum amount of $9.5 million.

Land Bank Agreement — Sound Transit entered into an agreement called the Land Bank Agreement with WSDOT in July of 2000 and as restated in December of 2003, the purpose of which is to establish a framework within which WSDOT can from time to time convey portions of WSDOT property to Sound Transit and to make other portions of other WSDOT property available for non-highway use by Sound Transit in consideration for Sound Transit's funding of highway purpose improvements. Sound Transit has light rail guideways located on WSDOT property governed under multiple forty year airspace leases issued under the land bank agreement. Should Sound Transit and WSDOT not enter into a new agreement at the end of the leases, property ownership transfers to WSDOT. At December 31, 2009, the value of the unused Land Bank credits that have not been conveyed by WSDOT to Sound Transit was $133.8 million. This value is not recorded in the financial statements. The following table provides information on additions to and uses of credits accruing to the benefit of Sound Transit in 2009 and 2008.

(in millions)	2009	2008
Balance in Land Bank, beginning of year	$ 141.5	$ 149.6
Draws:		
Airport Link	(0.1)	–
U-Link I-5 Twin Bore Tunnel Crossing	(7.6)	–
E-3 Busway	–	(4.3)
Issaquah Transit Center	–	(0.1)
Seattle-Auburn Track & Signal	–	(3.6)
Totem Lake Fwy Station/NE 128th	–	(0.1)
Balance in Land Bank, end of year	**$ 133.8**	**$ 141.5**

Purchases — At December 31, 2009 and 2008, Sound Transit had outstanding construction commitments of approximately $744.3 million and $372.7 million, respectively.

Grants — Sound Transit participates in several federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that Sound Transit has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2009 and 2008 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to non-compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Claims — In the ordinary course of business, Sound Transit has been named as a defendant in a number of lawsuits relating to contractual matters. Although the ultimate outcome, if any, of these matters is presently unknown, management has evaluated all claims and potential claims and where that exposure is probable, has reflected in the accounts of the Agency its best estimate. At December 31, 2009, $60.2 million has been recorded in construction in progress and a corresponding liability accrued ($52.0 million at December 31, 2008); however, as these are estimates, they are subject to change.

STATISTICAL DATA (UNAUDITED)

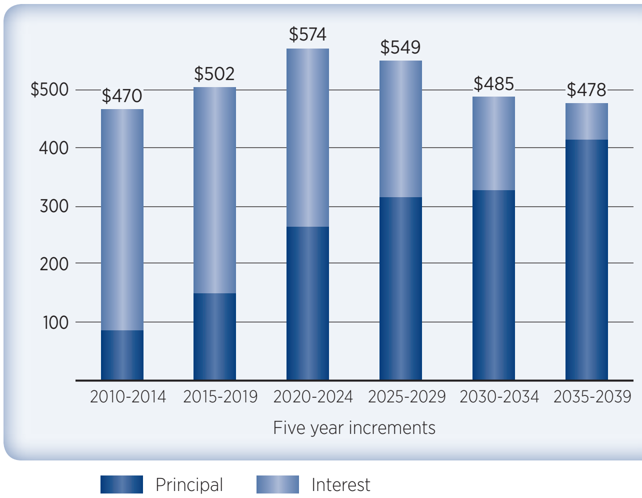
Revenue by Source ($ in thousands)

Year	Passenger Fares	Sales/Use Taxes	Motor Vehicle Excise Taxes	Rental Car Taxes	Investment Income	Grant Revenues	Other Revenues	Total Revenues
2005	$ 16,483	$ 239,785	$ 66,308	$ 2,245	$ 26,090	$ 142,485	$ 3,381	$ 496,778
2006	18,052	259,164	70,203	2,427	37,277	144,526	3,491	535,140
2007	22,029	280,263	72,403	2,531	24,952	117,338	4,353	523,869
2008	26,611	265,358	68,621	2,498	23,630	175,638	11,888	574,244
2009	29,048	440,929	67,290	2,869	12,360	176,619	4,331	733,446

Operating Expenses by Type ($ in thousands)

	2005	2006	2007	2008	2009
Labor	$ 22,403	$ 22,449	$ 23,507	$ 25,489	$ 29,544
Fringe Benefits	11,524	11,696	12,384	13,560	15,721
Services	20,283	19,998	22,398	27,869	38,613
Materials & supplies	3,089	3,693	3,832	5,882	7,266
Utilities	923	1,000	1,067	1,240	2,490
Insurance	2,504	2,406	2,272	2,953	2,805
Taxes	330	1,141	1,029	1,137	1,421
Purchased Transportation	55,350	61,631	69,955	78,781	90,119
Miscellaneous	2,838	2,917	2,815	3,193	2,665
Leases & rentals	2,198	2,052	2,082	2,308	2,577
	121,442	**128,982**	**141,341**	**162,413**	**193,221**
Depreciation, Disposals & Recoveries	34,495	33,490	35,496	38,296	65,807
Capitalized Indirect Expenses, Net	(23,659)	(21,377)	(25,168)	(26,592)	(24,198)
	$ 132,278	**$ 141,094**	**$ 151,669**	**$ 174,117**	**$ 234,830**

Debt Service Requirements to Maturity ($ in millions)



2009 Debt Capacity ($ in millions)

Assessed Valuation in 2008 for collection of taxes in 2009	$ 494,571
Maximum nonvoted debt (1.5% of assessed valuation)	$ 7,419
Less: Series 1999, 2005A, 2007A, 2009 Bonds and Other Long-term debt	$ 1,550
Nonvoted debt capacity remaining	$ 5,868
Maximum voted debt (5% of assessed valuation)	$ 24,729
Less: Series 1999, 2005A, 2007A Bonds and Other Long-term debt	$ 1,550
Voted debt capacity remaining	$ 23,178

SUBAREA SUMMARY

Revenues by Subarea (Unaudited)

(in thousands)	2005	2006	2007	2008	2009
Snohomish County	$ 67,668	$ 47,802	$ 53,482	$ 57,923	$ 71,415
North King County	141,442	138,160	155,066	171,858	250,244
South King County	95,531	123,906	107,243	128,630	129,752
East King County	98,716	105,281	106,879	107,932	155,037
Pierce County	77,472	88,623	79,528	86,972	120,090
Regional Fund	15,949	31,368	21,671	20,929	6,908
Total	**$ 496,778**	**$ 535,140**	**$ 523,869**	**$ 574,244**	**$ 733,446**

Operating Expenses by Subarea (Unaudited)

(in thousands)	2005	2006	2007	2008	2009
Snohomish County	$ 17,844	$ 18,029	$ 18,551	$ 22,368	$ 25,954
North King County	256	256	430	745	31,910
South King County	25,053	28,472	30,887	37,735	48,416
East King County	34,719	39,195	41,984	47,901	55,074
Pierce County	36,511	36,846	40,932	45,330	51,200
Regional Fund	17,896	18,296	18,885	20,038	22,276
Total	**$ 132,278**	**$ 141,094**	**$ 151,669**	**$ 174,117**	**$ 234,830**

Capital Expenditures by Subarea (Unaudited)

(in thousands)	2005	2006	2007	2008	2009
Snohomish County	$ 11,110	$ 57,071	$ 75,330	$ 26,249	$ 9,620
North King County	290,520	283,959	325,509	242,496	142,676
South King County	153,135	204,027	211,242	143,467	76,474
East King County	43,789	69,032	56,344	23,701	22,778
Pierce County	49,334	22,265	29,828	29,063	56,772
Total	**$ 547,888**	**$ 636,354**	**$ 698,253**	**$ 464,976**	**$ 308,320**

Another one million people are expected to call this region home in the next 25 years. That's about a 30 percent increase in population and is more than the current combined populations of Seattle, Bellevue, Everett and Tacoma. Put another way, the population of Central Puget Sound is growing by more than 40,000 per year.

2010 Sound Transit Board of Directors

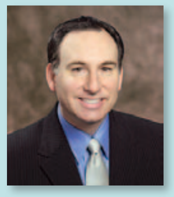
Aaron Reardon
Chair, Snohomish County Executive

Fred Butler
Vice Chair, Issaquah Deputy Council President

Claudia Thomas
Vice Chair, Lakewood Councilmember

Claudia Balducci
Bellevue Councilmember

Richard Conlin
Seattle Council President



Dow Constantine
King County Executive

Jan Drago
King County Councilmember

Dave Enslow
Sumner Mayor

Jake Fey
Tacoma Deputy Mayor

Paula Hammond, P.E.
Washington State Department of Transportation Secretary

John Marchione
Redmond Mayor

Joe Marine
Mukilteo Mayor

Mike McGinn
Seattle Mayor

Pat McCarthy
Pierce County Executive

Julia Patterson
King County Councilmember

Larry Phillips
King County Councilmember

Paul Roberts
Everett Councilmember

Pete von Reichbauer
King County Councilmember

Senior Management

Joni Earl
Chief Executive Officer

Ron Tober
Deputy Chief Executive Officer

Desmond Brown
Executive Director
General Counsel

Ahmad Fazel
Executive Director
Design, Engineering & Construction Management

Ric Ilgenfritz
Executive Director
Planning, Environment & Project Development

Ron Klein
Executive Director
Communications & External Affairs

Brian McCartan
Executive Director
Finance & Information Technology

Bonnie Todd
Executive Director
Operations

For information in alternative formats, call 1-800-201-4900 / TTY Relay: 711 or e-mail accessibility@soundtransit.org.

For information about Sound Transit projects or services, visit us online at www.soundtransit.org or call 1-800-201-4900 / TTY Relay: 711.

To receive e-mail updates for Sound Transit's bus or rail service, projects, or other information, subscribe online at www.soundtransit.org/subscribe.

Photo acknowledgements: Sound Transit staff, Jim Linna, ML Harris, Amanda Koster, Doug Plummer and John Wilbanks.

This document was printed on recycled paper.

RIDE THE WAVE

Union Station | 401 S. Jackson St., Seattle, WA 98104-2826
1-800-201-4900 | 1-888-713-6030 TTY | www.soundtransit.org